Implementation of the write-down and conversion powers and bail-in tool in Estonia

In accordance with the European Banking Authority Guidelines EBA/GL/2023/01 to resolution authorities on the publication of the write-down and conversion and bail-in exchange mechanic the below is the description of the implementation of the write-down and conversion powers and/or bail-in tool in Estonia.

By exercising the bail-in tool, the claims of creditors are written down and/or converted into the institution's equity to absorb its losses and recapitalise it. The bail-in tool is implemented through a decision of the Estonian Financial Supervision and Resolution Authority (EEFSA) acting as the resolution authority and, from the moment of this decision is made until the completion of the write-down and conversion of capital instruments and eligible liabilities (WDCCI(EL)), no consent is required from shareholders, creditors, or the management of the institution under the resolution, provided the prescribed procedure for the WDCCI(EL) is followed (Article 42(6) of the Financial Crisis Prevention and Resolution Act).

The implementation of the bail-in tool is accompanied with specific disclosure requirements under various EU and local legislations unless waivers or temporary exemptions are possible. The application of the bail-in tool may be supported by the external advisor(s). The institution under resolution is expected to prepare and submit a business reorganization plan (BRP). Assessing the business reorganization plan and establishing a monitoring on its implementation, which is expected to restore the long-term viability of the institution under resolution, is a critical step of the bail-in tool application.

This is a live document and we reserve the right to periodically revise and update it to reflect lessons learnt from crisis cases and dry runs as well as any internal Single Resolution Board (SRB) policies and other internal guidance adopted thereunder, future policy developments, and any amendments to the applicable EU legal framework and/or case law.

The below description provides the main stakeholders involved in the implementation of the bail-in tool, also an indicative timeline for the implementation of the bail-in tool and describes the main steps at the different stages of the implementation of the bail-in tool.

The implementation of the bail-in tool in the actual resolution of a credit institution may differ from what is presented below (the description is general in character and does not take into consideration institution specific special features), taking into account the relevant circumstances of each case.

I. Stakeholders involved in the implementation of the WDCCI(EL) and/or bail-in tool

Stakeholder	Task
National Resolution Authority (NRA)	The EEFSA as a resolution authority conducts resolution proceedings
Supervisory Authority	The EEFSA as a supervisory authority
Credit institution	Credit institution subject to resolution action (resolution entity)

Independent valuers/Advisors	Before applying the resolution tools, including the bail-in tool, the valuation of the financial situation of a credit institution is carried out. It is assessed whether the conditions for resolution are met, and which resolution tools are to be applied to the institution to best achieve the resolution objectives
Commercial register (Äriregister)	Register, which includes the data of all legal entities registered in Estonia. Changes are made in the corporate documents of the resolution entity (e.g., the Memorandum of Association, Articles of Association)
Central Securities Depository of Estonia (CSD)	Nasdaq CSD SE Estonian branch, which acts as the depository and securities registry in Estonia
Stock Exchange	Nasdaq Baltic Tallinn Stock Exchange is operated by the Nasdaq Baltic (it operates 3 stock exchanges – in Estonia, Latvia and Lithuania)
Special Manager	The special manager shall take all the measures necessary to promote the resolution objectives referred to in Article 4 of the Financial Crisis Prevention and Resolution Act and implement resolution actions according to the decision of the EEFSA

II. Timetable for the implementation of the WDCCI(EL) and the bail-in tool in Estonia

The following table describes steps to be performed for implementation of the WDCCI(EL) and the bail-in tool. It should be noted, that the implementation of the bail-in tool (preparation and execution) should be adjusted and updated (if relevant) adapting to circumstances and crisis scenario.

1. Preparatory phase (pre-resolution period)	**2. Exchange of information and disclosure (pre resolution period)**	**3. Preparing the write down and conversion of capital instruments and eligible liabilities (resolution period)**	**4. Implementing the WDCCI(EL) and the bail-in (resolution period)**	**5. Other activities supporting the bail-in tool application (resolution period)**	**6. Business reorganization plan (post resolution)**
Identification of all relevant internal and external stakeholders	Assessment of financial instruments against disclosure framework	Preparation of the decision on the application of WDCCI(EL) and bail-in	Instruction to the CSD regarding application of the WDCCI and the bail-in	Request to assess qualifying holding	The resolved entity prepares business reorganization plan
Collection/update of all necessary information	Consult with the Securities Markets Supervision	Possible changes in the legal form of the institution under resolution	Delivery of the WDCCI(EL) decision the Commercial register (change of registered data)	Oversight on the recording of the resolution actions in the accounting books of the institution under resolution	The resolved entity replies to questions raised by the EEFSA and amends the business reorganization plan accordingly
Identification of data points needed for the exchange of	Securities Market Supervisor delivers on the consultation	Specifying statutory and discretionary exclusions	Issuance of new tradable securities	Update the publicly available document on local practices of application of	Approval of business reorganization plan or

information with CSD and stock exchanges				the Bail-in tool (*after Bail-in application*)	a request for amendments
Finalisation of the process of appointment of external advisor(s) (if needed)	Review and approval of communication	Determination of the record date	CSD implements the WDCCI(EL) decision		The resolved entity operates as per the business reorganization plan framework and regularly report to the EEFSA
		Issue of instructions to CSD prohibiting new settlement	Institution applies for new ISINs		
		CSD executes the instructions	CSD assigns new ISINs		

III. Steps of the implementation of the bail-in tool at different stages of its implementation

Pre-resolution

1. Preparatory Phase

Step	Description of step
Identification of all relevant internal and external stakeholders	NRA defines all the relevant stakeholders in relation to the application of the bail-in tool, either as a standalone tool, or in conjunction with other resolution tool(s).
Collection/update of all necessary information	For the purposes of performing Valuation 1 and Valuation 2, the NRA shall ensure the gathering of all necessary information (Article 36(4) part 6 of the Financial Crisis Prevention and Resolution Act). The quality and completeness of the collected data is of importance for the implementation of the bail-in tool. Depending on the duration from initial provision of information to decision on the scope and perimeter of WDCCI and bail-in, the NRA either uses initial information or requires to update the initially provided data.
Identification of data points needed for the exchange of information with CSD and stock exchanges	NRA discusses explicit instructions for the tasks the CSD needs to execute prior to the bail-in execution.

Finalisation of the process of appointment of external advisor(s) (if needed)	NRA appoints the external advisors during the Preparatory phase of the resolution process (Commission Delegated Regulation (EU) 2016/1075). This process generally consists of: • Defining the scope of work of the external advisor • Aligning the scope with the external party • After signing the contract, set up communication rules with the external advisor

2. Exchange of information and disclosure

Assessment of financial instruments against disclosure framework	Based on provided data, it is assessed if any issued financial instruments fall under applicable disclosure framework. Bail-inable debt securities or other liabilities issued by the institution fall under Regulation (EU) No 596/2014 if they are admitted to trading on a regulated market or traded on a multilateral trading facility (MTF), or organized trading facility (OTF).
Consult with the Securities Markets Supervision	Consultation with Securities Markets Supervision if Bank-issued Over-The-Counter (OTC; in case they are issued) instruments could create risks of market abuse.
Securities Market Supervisor delivers on the consultation	The Financial Supervision Authority Act and related financial market laws provide the Securities Market Supervisor with the authority to carry out its duties related to Regulation (EU) No 596/2014.
Review and approval of communication	Review and approval of any communication that shall be published on the EEFSA website or the Commercial register.

Resolution period

3. Preparing the write down and conversion of capital instruments and eligible liabilities

Preparation of the decision on the application of WDCCI(EL) and bail-in	Categorisation of liabilities in line with WDCCI sequence/waterfall considering (Article 74 of the Financial Crisis Prevention and Resolution Act): 1. Available results of Valuation 2. This valuation provides the EEFSA with information on the perimeter of WDCCI and bail-in; 2. Hierarchy to be followed when performing WDCCI and bail-in.; 3. Amount of losses to be absorbed and determining the parameters of the write-down;
Possible changes in the legal form of the institution under resolution	In the context of bail-in, changing the legal form of the institution under resolution prior to the exercise of write-down and conversion powers in resolution can be an essential step (Article 70(3) of the Financial Crisis Prevention and Resolution Act).

Specifying statutory and discretionary exclusions	Consideration of exclusion of certain eligible liabilities from bail-in. The resolution authority exercises its powers for write-down and conversion, in relation to certain categories of liabilities (Article 72 of the Financial Crisis Prevention and Resolution Act).
Determination of the record date	The NRA shall establish a general record date applicable to the resolution case.
Issue of instructions to CSD prohibiting new settlement	The NRA delivers the decision and instructions to the institution and CSD (Article 42(4) the Financial Crisis Prevention and Resolution Act).
CSD executes the instructions	Receiving the instructions and executing them.

4. Implementing the WDCCI(EL) and the bail-in

Instruction to the CSD regarding application of the WDCCI and the bail-in	Based on the decisions on WDCCI(EL) and on bail-in and taking in consideration any technical implementation, the CSD is instructed by the NRA for the required changes of registered data (Article 42 (5) the Financial Crisis Prevention and Resolution Act).
Delivery of the WDCCI(EL) decision to the Commercial register (change of registered data)	A notification is submitted to the Commercial register by the NRA to ensure implementation of the decision on WDCCI and the bail-in (Article 42 (5) the Financial Crisis Prevention and Resolution Act).
Issuance of new tradable securities	The issuer of securities shall receive the relevant request, central depositories shall assign an ISIN code to a security without delay (Article 42(5) the Financial Crisis Prevention and Resolution Act).
CSD implements the WDCCI(EL) decision	CSD implements the instructions, as per WDCCI(EL) decision on the conversion ratios and issuance of new (*tradable*) shares (*if relevant*). Also, the CSD will provide information available on owners for the purpose of identifying the owners/holders of the affected securities.
Institution applies for new ISINs	Institution applies for new ISINs in the cases of conversion.
CSD assigns new ISINs	CSD assigns a new ISIN and informs the institution and the NRA.

5. Other activities supporting the bail-in tool application

Request to assess qualifying holding	Where a transfer of shares results in the acquisition of or increase in a qualifying holding in a credit institution, the EEFSA as the supervisory authority shall also consider the achievement of the resolution objectives in assessing the holding (Article 61 the Financial Crisis Prevention and Resolution Act).
Oversight on the recording of the resolution actions in the accounting books of the institution under resolution	The resolution will have an impact in the balance sheet. The institution will have to reflect its effects in its accounting books.

Update the publicly available document on local practices of application of the Bail-in tool (*after Bail-in application*)	The EEFSA shall issue/update its report after the application of the bail-in tool, as per the requirements of EBA/GL/2023/01.

Post resolution

6. Business reorganisation plan

The resolved entity prepares business reorganization plan	The resolved entity shall prepare and provide a business reorganization plan to the EEFSA. The business reorganization plan shall be provided within 1 month of application of Bail-in (with possible extension up to 2 months; Article 48 the Financial Crisis Prevention and Resolution Act). A business reorganisation plan shall describe measures necessary to restore the viability of the resolved entity or to restore partial business activities within a reasonable timescale. The measures shall be based on actual assumptions and take into account the economic environment and the environment affecting the financial market where the resolved entity will operate.
The resolved entity replies to questions raised by the EEFSA and amends the business reorganization plan accordingly	The resolved entity provides sufficient information to the EEFSA so that assessment can be performed (Art. 4 of Regulation 2016/1400), together with analysis of the impact on the critical functions of the institution and financial stability.
Approval of business reorganisation plan or a request for amendments	Within 1 month of the date of submission of the business reorganization plan, the EEFSA shall assess the likelihood that the plan, if implemented, will restore the viability of the resolved entity (Article 48(9) the Financial Crisis Prevention and Resolution Act). If the EEFSA is satisfied that the plan achieves the long-term viability of the resolved entity, the EEFSA shall submit the business reorganization plan to a court for approval (Article 48(10) the Financial Crisis Prevention and Resolution Act). If the EEFSA is not satisfied that the business reorganization plan achieves the long-term viability of the resolved entity, the EEFSA shall notify the resolved entity of its concerns and require the amendment of the plan (Article 48(11) the Financial Crisis Prevention and Resolution Act).
The resolved entity operates as per the business reorganization plan framework and regularly reports to the EEFSA	The resolved entity should implement the measures set out in the business reorganization plan and provide a progress report to the EEFSA every 6 months (Article 48(13) the Financial Crisis Prevention and Resolution Act).