Recovery and Resolution Planning Progress

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FSF Principles for Cross-Border Cooperation on Crisis Management

- High level principles for cross-border cooperation on crisis management, including commitment to cooperation between relevant authorities (supervisory agencies, central banks and finance ministries) in making advanced preparations to deal with financial crisis.

- Called for authorities to meet annually to consider specific issues and barriers to coordinated actions that may arise in situations of severe stress at specific financial institutions, to share information where necessary and possible, and to ensure that firms develop adequate contingency plans.

- Stipulated that the process should culminate in:
  - Recovery Plans developed by firm management and intended to outline options for an institution to recover from a severe stress without extraordinary official sector actions.
  - Resolution Plans developed by the official sector and intended to identify options that would result in an orderly wind-down.
Based on FSB guidelines, meetings were held in January 2010 to discuss the specific issues and barriers to coordinated action that might arise in handling severe stress at five specific firms deemed to be significantly important within the US financial system.

Participants included representatives from:

- Supervisory authorities and Central Banks from international jurisdictions
- US Regulatory Agencies:
  - Board of Governors of the Federal Reserve System
  - Federal Reserve Banks of New York and Richmond
  - Federal Deposit Insurance Corporation
  - Office of the Comptroller of the Currency
  - Securities and Exchange Commission
US Firms - Crisis Management Recovery Plan Review

First Steps:

- In early 2010, companies submitted baseline information on business lines, legal entity footprints and recovery plans including liquidity contingency plans and de-risking plans

- Extensive discussions were held with senior management of each institution

- Key impediments to robust recovery and resolutions plans were identified, along with potential actions that can be taken to eliminate roadblocks

- Plans contained weaknesses in identifying and assessing de-risking strategies and options
More detailed plans were submitted to supervisors for review in August 2010

- Detailed instructions were delivered to firms on how to further develop plans as part of an iterative supervisory process

- Key sections of recovery plans:
  - Recovery Liquidity Plan
  - Recovery Capital Plan
  - Plan to sell businesses/subsidiaries
  - Plan to wind down/liquidate trading book
US Firms - Recovery Plan Review – Main Deliverables

- Assessment of each individual firm’s plans across ten dimensions

1. Overall plan assessment
2. Leadership/Communications
3. Capital
4. Divestiture options
5. De-risking (non-divestiture) options
6. Funding/Liquidity – Contingency funding plan
7. Booking and risk management practices for derivatives
8. Global payment operations
9. Intra-group guarantees
10. Management Information Systems (MIS)/Service Level Agreements (SLA)
Individual plans were reviewed by regulators for sufficiency and to identify additional work to be undertaken to continue to enhance and improve recovery options. Assessment criteria included:

- Identification of activities core to the firm and/or systemically important
- Speed and certainty of execution within reasonable time frame
- Options should be sizeable, both individually and in aggregate, so that the plan has a reasonable chance of turning the firm around
- Degree of freedom – Plans should provide a range of diverse options
- Credibility - Do the options pass credibility tests with shareholders, debt holders, counterparties, central banks and supervisors?

Letters compiled with feedback and sent to institutions in January 2011
US Firms – Recovery Plan Review - Next steps

- Firms to address open issues identified in examination letters

- Detailed inter-agency data request on payments activities – recently kicked off

- Supplemental data request to confirm understanding of legal entity structure and critical internal service functions

- Work across US agencies to ensure firms explore the full range of scenarios from early recovery through to resolution

- Identification of the services and activities that are “core”, “systemic” and those that are “critical”
Emerging Thoughts: Core, Systemic & Critical Activities

- **Core activities:** Those which banks consider as central to their business model – bankers’ and supervisors’ view of these activities may be different.

- **Systemic activities,** for the purpose of thinking about recovery, have a “macro” and a “micro” component:
  
  - Systemic activities will impact markets, prices and liquidity, impacting:
    - Other financial institutions and/or
    - The real economy
  
  - Financial distress can also be transmitted through the disruption of transactions, intermediation or other services
  
  - In our emerging thinking, activities are “critical” if the intermediation, transactions and services they facilitate are both systemically important and hard to substitute.
US Firms – Crisis Management Resolution Plans

- Working groups formed consisting of individuals with expertise in the resolution regimes in identified jurisdictions

- Groups tasked with gathering additional information from supervisors and resolution authorities to outline likely paths to be taken by authorities regarding specific operations – by legal entity – of each institution as problems progress through:
  - Early Stages
  - Increased Severity
  - Official Actions Taken

- Scenarios to identify key drivers for each jurisdiction, given current legal environments, identify and develop:
  - Paths to allow for orderly resolution
  - Paths that will result in disorderly resolution
  - Paths with uncertainties regarding orderly/disorderly resolution

- Iterative process that, over time, should allow regulators to develop acceptable options
All bank holding companies with total consolidated assets of $50 billion or more and any nonbank financial company designated by the Financial Stability Oversight Council (“FSOC”) to be supervised by the Board (collectively “covered companies”) must submit a plan for “rapid and orderly” resolution “in the event of material financial stress or failure.”

The Board and FDIC published a proposed rule in April to implement this requirement; comments are due June 10.

The rule will require that a resolution plan include:

- A strategic analysis for how the firm could be resolved under the U.S. Bankruptcy Code;
- A discussion of material impediments and the company’s plans to remediate;
- A description of the company’s governance process for resolution planning;
- A detailed listing and description of all significant interconnections and interdependencies among major business lines and operations that if disrupted would affect the funding or operations of the company or its major operations;
- A mapping the firm’s business lines to legal entities; and
- Information regarding assets, liabilities, contractual obligations; cross-guarantees, counterparties, and collateral.
US Supervisory Colleges

- Five US Colleges:
  - Citigroup, Bank of America, JP Morgan Chase, Morgan Stanley, Goldman Sachs

- Face to face meetings held annually, quarterly conference calls

- Supplemented by frequent and meaningful bi-lateral communications

- Core Supervisors only at this point
  - Consideration being given to jurisdictions where US firms locally systemic; bilateral communications are key here.

- US supervisors have broad discretion regarding information sharing
  - MOUs in place with core supervisors
US Supervisory Colleges

- SIG survey indicates Colleges generally well received and meeting established objectives.

- Broad range of topic discussed, examples include:
  - US Risk Assessment of consolidated entity
  - Basel II implementation
  - Forecasted financial performance
  - Host country input on significant risk management concerns
  - Overview of supervisory plans, including opportunities for joint or concurrent work.
  - Coordination with FSB crisis management efforts and SSG initiatives
Questions