



# **Office of Complex Financial Institutions Dodd-Frank Act Title I**

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## **Living Wills Overview**

**January 25, 2012**

## Dodd-Frank Act Resolution Plan Rule

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- Covered companies are required to submit to the FDIC, FRB and FSOC an annual plan for their rapid and orderly resolution under the Bankruptcy Code. Covered companies are
  - Bank holding companies, including foreign banks with US operations, with \$50 billion or more in total assets; and
  - Nonbank financial companies designated by FSOC for enhanced supervision by the FRB
- Staggered annual filings, beginning July 1, 2012, through December 31, 2013
- Must include a strategic analysis showing how to accomplish a rapid and orderly resolution in manner that mitigates serious adverse effects on US financial stability
- Focus on identifying core business lines and critical operations and mapping to legal entities
- Requires identification of funding, liquidity needs, interconnections and interdependencies, and management information systems
- If the FRB and FDIC determine a plan is not credible or would not lead to orderly resolution, more stringent prudential requirements, and, ultimately restructuring, may be imposed

## **Resolution Plans required for Insured Depository Institutions (IDIs) with \$50 billion or more in total assets**

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- Rule requires a covered IDI to submit annually to the FDIC a plan that would enable the FDIC, as receiver, to resolve the institution under the Federal Deposit Insurance Act at the least cost to the institution's creditors
  - Complements the Dodd-Frank Act resolution plan rule
- Staggered filings beginning July 1, 2012, through December 31, 2013, (consistent with 165d Rule)
- Purpose of the Rule is to facilitate the FDIC's resolution of the insured institution independently of its parent company and non-bank affiliates in manner which
  - Provides depositors access to insured deposits within 1 day
  - Maximizes NPV return on assets
  - Minimizes loss to creditors, including deposit insurance fund
- Requires an analysis and discussion of impediments to or operational complexities that would inhibit a resolution
- Provides the FDIC with information and data necessary to perform an orderly resolution

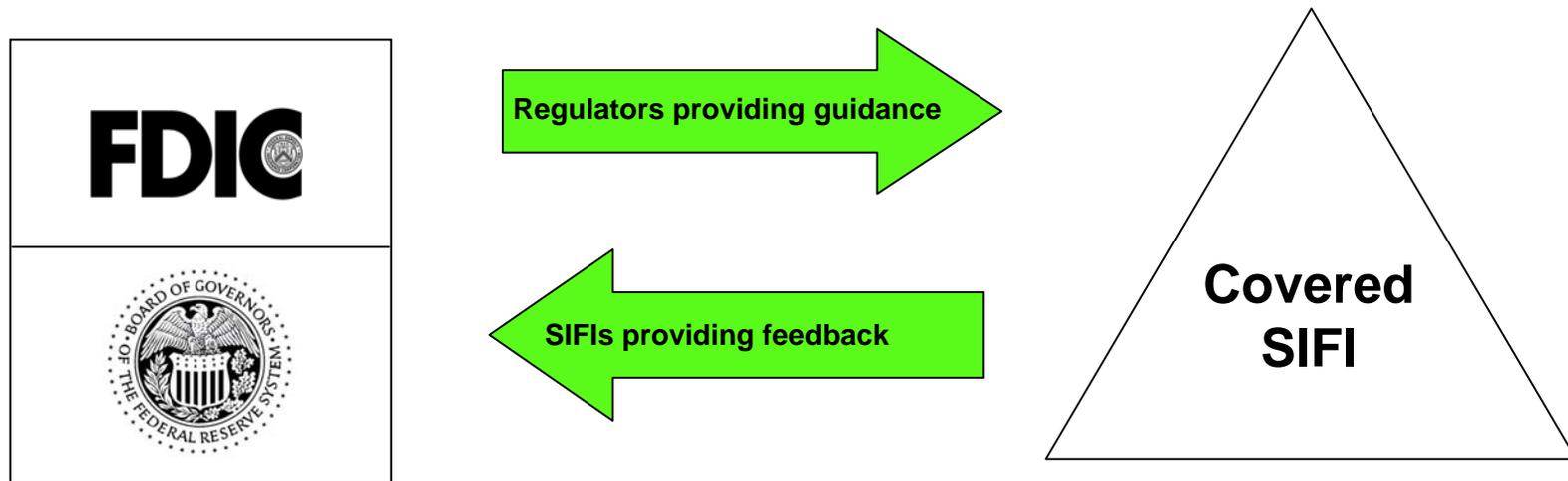
## Living Wills

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- Rule making requires that each SIFI or insured depository institution prepare a resolution plan in order to:
  - Provide regulators with an understanding of the firm's structure, complexity and international operations, as well as strategies to resolve the SIFI under the Bankruptcy Code, Federal Deposit Insurance Act, or other resolution regime as applicable
  - Assist the Federal Reserve Board & FDIC in their efforts to ensure that SIFIs operate in a manner that is both safe and sound and that does not pose risks to the financial stability of the United States
  - Provide for the rapid and orderly resolution of a SIFI in the event of material financial distress or failure
  - Provide a plan to fund critical operations during the resolution process
  
- The Living Wills process has laid the groundwork to encourage each covered entity to focus on:
  - Resolution planning and strategy
  - Evaluating and streamlining complex legal structures
  
- Title I plan submissions will inform and help refine FDIC's Title II planning
  
- Rules establish a tiered submission and review process with the first group submitting plans on July 1, 2012

## Regulatory Process

Regulators are working with SIFIs monthly on structure and content of resolution plans



Regulators do not want pure data submissions - SIFIs must submit information to support resolution strategies and a description of how to implement the plan

# Dodd Frank Resolution Plan Review

The review process has two stages:

1) **Completeness Review:**

- After receipt of the plan, the FRB and FDIC will determine within 60 days if the plan is informationally complete

2) **Credibility Review:**

- After the submission is deemed informationally complete, the FRB and FDIC will assess the credibility of the resolution plan
- The initial plans will provide the foundation for developing more robust annual resolution plans over subsequent years

## SIFI Resolution Plan under Dodd-Frank 165 (d) Timing



- *The DFA Rule requires the FRB and the FDIC to review a submitted resolution plan within **60 days** and to notify the SIFI in writing if the resolution plan lacks information required by the DFA Rule or if the FRB or FDIC requires additional information to facilitate review of the resolution plan.*

- *The SIFI must provide required additional information no later than **30 days** after it receives the notice requesting information.*

- ***After the submission of the resolution plan is determined informationally complete**, the FRB and FDIC will jointly review to determine if the resolution plan will facilitate a rapid and orderly resolution of the SIFI under the Bankruptcy Code or other regime. A joint notice will be issued if plan is found to be deficient.*

- ***Within 90 days** of receiving a notice of deficiencies, or such shorter or longer period as the FRB and the FDIC may determine, a SIFI must submit a revised resolution plan that addresses the deficiencies identified and discusses in detail the revisions made or curative actions required to mitigate such deficiencies.*

## Focus on Potential Impediments to Resolution

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- Complexity of the Organizational Structure
  - Operation of business lines across legal entities and legal jurisdictions
  - Mapping of business lines and critical operations to the legal entities responsible for their on-going operation
  - Extent of intra-company receivables/payables/guarantees/service level agreements and back-to-back Qualified Financial Contracts (QFCs)
- Extent of International Operations
  - Avoidance of precipitous actions such as ring fencing, administration, and liquidation
- Extent of QFC activity
  - International ISDA QFC agreements
  - Quality of information related to identification of legal entities, netting counterparties, collateral amounts and location, especially international contracts
- Liquidity Needs/Funding Mechanisms
- Exit Strategies

## Preparation by Regulators

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In preparing for the delivery of the first set of Resolution Plans, Regulators are:

- Meeting monthly with the SIFIs to provide for guidance in anticipation of the Title I submissions
- Continuing to increase staff and build out infrastructure to manage the submission process
- Developing policies and procedures for the review of the plans
- Managing broad based outreach and international coordination effort to minimize the variances between cross-border resolution plan requirements
- Conducting dialogue and coordination regarding general Title I issues and SIFI-specific issues