



# International Resolution Strategy

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December 10, 2012

# Overview

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- I. Update of heat map findings on key jurisdictions since last SRAC, and expansion of criteria beyond that of “total activity.”
- II. Outreach based on key jurisdictional findings.
- III. Key obstacles to cross-border resolution.

# I. Recap Since Last SRAC

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- **OCFI Mission:**

To promote public confidence and maintain financial stability during periods of financial stress and crisis by effectively coordinating the cross-border resolution of G-SIFIs.

# Work Program

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In furtherance of this objective, ICG has developed a work program to:

- i. Understand each SIFI's global footprint to enable the FDIC to mitigate the systemic impact of a SIFI failure by sustaining critical operations and core functions at viable foreign entities.
- ii. Identify key jurisdictions and work together with supervisors and resolution authorities.
- iii. Identify and address obstacles to cross-border resolution.

# Key Findings from 2012 Work Program

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- ICG's 2012 work program confirms initial "heat map" findings presented to SRAC last January, adds new criteria (including additional SIFIs), and provides a basis for a methodology for ongoing bilateral initiatives:
  - **Factors Used to Determine Key Jurisdictions:**
    - ✓ "Total Activities"
    - ✓ Locations with Surplus Liquidity
    - ✓ Operations Centers
    - ✓ Key Memberships in Financial Market Utilities (FMUs)
  - **Bilateral Engagement:**
    - ✓ Crisis Management Groups (CMGs)
    - ✓ Bilateral Discussions
    - ✓ Proposed MOUs

# “Foreign Activity” Remains Concentrated in 3 Jurisdictions

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- Key findings from analysis of the top 7 U.S. SIFIs (updated from top 5 analyzed in January) remain materially unchanged:
  - Over 90% of the “total reported foreign activity” for all 7 SIFIs is located in 3 foreign jurisdictions – with the UK still the largest footprint.
- 15 jurisdictions cover over 97% of “total reported foreign activity” of the top 7 U.S. SIFIs.
- 1 to 7 legal entities account for over 85% of each SIFI’s “total reported foreign activity.”

# Identifying Key Jurisdictions – Liquidity Surpluses

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- Liquidity surpluses are also concentrated in a few jurisdictions.
- Analysis of liquidity – location of substantial cash positions, intercompany funding and interconnections – suggest which entities might be integral to funding within the enterprise.
- Excess third-party assets covering third-party liabilities heighten susceptibility to ring-fencing.

# Identifying Key Jurisdictions – Data and Operational Centers

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- Overseas affiliates of SIFIs provide shared services, support critical operations, and underpin core business lines.
- Available information shows clusters of data and operations centers around European financial centers (notably UK) and in Asia (notably India).
- Analysis thus far reinforces earlier findings: a handful of jurisdictions remain our top priorities.



# Identifying Key Jurisdictions – Key Non-U.S. FMU Memberships

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- Non-U.S. FMUs important to the material legal entities of the top 7 U.S. SIFIs notably include:
  - UK: London Clearinghouse (LCH); Continuous Link Settlement (CLS).
  - Belgium: Euroclear; SWIFT.
  - ECB/Eurozone member central banks: TARGET2.
  - Luxembourg: Clearstream.

# Identifying Key Jurisdictions – Multiple Factors Confirm Initial Findings

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- Foreign Activity: Activity concentrated in 3 foreign jurisdictions (UK largest footprint).
- Liquidity Surpluses: Liquidity similarly concentrated.
- Data and Operational Centers: Key support services concentrated around key financial centers in Europe and in Asia.
- Financial Market Utilities: Non-U.S. FMU memberships – key to continuing foreign operations – concentrated in a few jurisdictions.

## II. Engagement with Foreign Resolution Authorities

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- Crisis Management Groups (CMGs): Continuing
- Bilateral Dialogues: Established and ongoing
- Bilateral MOUs: Underway

# Crisis Management Groups (CMGs)

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- 23 CMG meetings in 2012, in 8 jurisdictions:
  - EMEA: UK (5); France (5); Germany (1); Switzerland (1)
  - Asia: Japan (2); Hong Kong (2)
  - Americas: United States (4); Canada (3)
- Opportunity for:
  - In-depth dialogue between home and host jurisdictions
  - Cultivating and maintaining discussions on a variety of issues with many foreign regulators

# Bilateral Cross Border Resolution MOUs

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- Bilateral resolution MOUs with resolution and other financial services regulatory authorities in **twenty-six** jurisdictions worldwide are contemplated:
  - Completed:
    - ✓ UK (BoE, FSA); Ireland (CBI); Jersey (FSC); China (CBRC)
  - Underway:
    - ✓ EMEA: 6 jurisdictions
    - ✓ Asia: 8 jurisdictions
    - ✓ Americas: 5 jurisdictions
  - Planned: 7 jurisdictions

# Key Features of Resolution MOUs

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- **Common Principles:**
  - Recognize importance of ex ante preparation for effective implementation of firm monitoring, crisis management, and resolution strategies.
  - Need flexible/adaptable cross-border crisis management arrangements.
  - Coordinate with national and international authorities.
- **Mechanisms for and Scope of Regulatory Cooperation:**
  - Consult regularly on resolution developments, analysis of firm-specific resolution issues/strategies, and planning contingencies for resolution scenarios/simulations.
  - Share relevant information (e.g., resolution plans/strategies, firm-specific information on financial and operational conditions, and regulatory changes).
- **Confidentiality and Data Protection:**
  - Limit use of shared information to resolution planning and implementation.
  - Require consent of supplying authority for onward sharing of information.

# III. Key Obstacles to Cross Border Resolution

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*Goal:* To continue critical foreign operations

- Ring-fencing
- Change of control requirements
- Fit and proper requirements
- Termination of contracts (especially derivative contracts)
- Access to payments, clearing and settlement systems
- Access to collateral
- Access to data/operational services (provided by affiliates)

# In Conclusion: Successful Cross-Border Resolution

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- Keys to a successful cross-border, orderly liquidation of a globally active institution include:
  - Manage the workload by prioritizing.
  - Plan ahead – promote understanding of our strategies and discussion through bilateral dialogue.
  - Address primary obstacles to resolution.
  - Promote the adoption of common toolkits for resolution and shared goals.