FDIC

Advisory Committee on

Systemic Resolution

International Coordination

December 11, 2013

Background

- **<u>Bilateral Outreach:</u>** The FDIC is engaged directly with key jurisdictions which either host significant US SIFI operations or which serve as home jurisdictions to foreign SIFIs with significant US operations.
- This work has included the FDIC – EC Joint Working Group, a forum created to exchange views with officials from both authorities on matters related to resolution and deposit insurance.

- **<u>Multilateral dialogue:</u>** Includes work under the auspices of international member organizations such as the Financial Stability Board (FSB) and the Basel Committee on Banking Supervision to help identify and address obstacles to the successful execution of cross border SIFI resolution.

Bilateral Discussions: Europe

- **UK**: Following up on the joint paper of last December, we conducted a staff-level cross-border resolution tabletop exercise and plan to organize a principal-level exercise next year.
- **Switzerland and Germany**: Significant principal- and staff-level engagements with the Swiss Financial Market Supervisory Authority (FINMA), in the case of Switzerland, and the German Federal Financial Supervisory Authority (BaFin), in the case of Germany.
- **Japan**: Principal-level delegation to visit Japanese authorities to engage on resolution-related matters, including the conclusion of an exchange of letters for the purpose of information sharing. The FDIC also recently concluded a resolution related MOU with the People's Bank of China.

ISDA Letter

- The disorderly termination of derivatives contracts arising out of the exercise of counterparty termination rights following the commencement of an insolvency or resolution action remains a significant barrier to cross-border resolution.

- This problem has been identified by the FSB, academics, financial institutions, and regulatory and resolution authorities, and a solution will require work both at the regulator and industry level.

ISDA Letter (cont.)

- The FDIC worked together with the Bank of England, BaFin and FINMA to develop a joint letter to ISDA recommending that it amend its standard documentation to provide for a short-term suspension of early termination rights and other remedies on the basis of the commencement of an insolvency or resolution proceeding or exercise of a resolution power with respect to a counterparty or its specified entity, guarantor or credit support provider.

- This represents significant cooperation with our fellow regulatory authorities in Europe, and is a direct result of the FDIC’s commitment—at the highest levels—to its bilateral and multilateral cross-border entagement.

FDIC - EC Joint Working Group

- The FDIC and the European Commission have established a joint working group made up of senior executives from our respective organizations to focus on both resolution and deposit insurance issues.
- The working group meets twice a year, once in Brussels and once in Washington, with regular opportunities for dialogue in between.
- There have been two meetings held this year, the most recent in Brussels in September.
- We have had detailed discussions on the FDIC’s experience with resolution and deposit insurance as well as our SIFI resolution strategy, and on the pending EU Recovery and Resolution Directive and proposal for a European Resolution Mechanism, which we will discuss in the following slides.

EU Developments

- The EU is developing a comprehensive package of financial reforms in response to the recent financial crisis.

- These initiatives include:
  - An EU Recovery and Resolution Directive (“RRD”);
  - A Single Supervisory Mechanism (“SSM”); and
  - A Single Resolution Mechanism (“SRM”).

EU Developments (cont.)

- The RRD, in its current draft form, would establish a framework to be implemented by EU member states through national legislation to facilitate the resolution of member state financial institutions while ensuring continuity of essential services, minimizing the impact of failure on the European financial system and avoiding costs to taxpayers.
- The SRM, in its current draft form, covers all Euro area member states and those non-Euro area member states who choose to join, and would work in conjunction with the RRD to provide a unified system for resolution of banking institutions within the EEA.
- The SSM, passed in October 2013, will create a new system of financial supervision comprising the European Central Bank and the national authorities of all Euro area member states and those non-Euro area member states who choose to join.

EU Developments
Impact to the FDIC

- The RRD, the SSM and the SRM include many powers similar to those available to US authorities, including the orderly liquidation authority under Title II of the Dodd-Frank Act.
- Once these new laws and regulations are implemented, the similarities between our respective regimes should provide the basis for increased coordination between the US and the member states of the EU in the event of a failure of global systemically important financial institution.

FSB – Overview

- The FSB is the first major international governance innovation of the G-20 leaders and their primary response to the 2007-2009 global financial crisis.
- Membership:
  - 52 financial authorities from 24 member jurisdictions, including all of the G-20 nations
  - International organizations
  - International standard-setting bodies
- US Representation:
  - FDIC and other US authorities participate as leaders/members of FSB groups and workstreams
  - The FDIC addresses resolution related matters through the work of the Resolution Steering Group

Key Attributes of Effective Resolution Regimes

In October 2011, the FSB published the Key Attributes of Effective Resolution Regimes for Financial Institutions, which was endorsed by the G20 the following month at the Cannes summit:

- The Key Attributes is an internationally-agreed standard that sets forth the responsibilities and powers that national resolution regimes should have to resolve a failing systemically important financial institution (SIFI).
- Influenced by and consistent with the FDI Act and Dodd-Frank Act, it requires member jurisdictions to:
  - Have in place resolution regimes with a broad range of powers to intervene and resolve a financial institution that is no longer viable;
  - Remove impediments to cross-border cooperation and provide resolution authorities with incentives, statutory mandates and powers to share information across borders;
  - Ensure that recovery and resolution plans are put in place for all G-SIFIs;
  - Maintain Crisis Management Groups for all G-SIFIs, bringing together home and key host authorities underpinned by institution-specific cross-border cooperation agreements.

ReSG 2014 Workplan

- The Resolution Steering Group has proposed an ambitious agenda for the coming year
- G-SIIs: CMGs to be established by July 2014 and RRPs to be developed by year-end 2014
- GLAC: six new workstreams, including the nature of GLAC, minimum GLAC amounts, intra-group GLAC and associated triggers, enforceability of bail-in, regulatory limits on GLAC holdings, and disclosure of GLAC
- Termination of QFCs: development of options to prevent triggering of early termination rights due to entry into resolution by year-end 2014
- Cross-border recognition: develop recommendations on tools to facilitate recognition of foreign resolution measures by year-end 2014
- Funding and Liquidity: develop guidance on sources of resolution funding by year-end 2014