The meeting of the FDIC Systemic Resolution Advisory Committee ("Committee") was called to order by Jelena McWilliams, Chairman of the Board of Directors, Federal Deposit Insurance Corporation ("Corporation" or "FDIC").

The members of the Committee present at the meeting were:

Sheila Bair, Former Chairman, Federal Deposit Insurance Corporation; Dr. Ben S. Bernanke, Distinguished Fellow in residence with the Economic Studies Program at the Brookings Institution, Former Chairman of the Board of Governors of the Federal Reserve System; Michael Bodson, President and Chief Executive Officer, Depository Trust & Clearing Corporation; Honorable Shelley C. Chapman, United States Bankruptcy Judge, Southern District of New York; H. Rodgin Cohen, Senior Chairman, Sullivan & Cromwell LLP; Gary Cohn, Former Assistant to the President for Economic Policy and Director of the National Economic Council; Robert Drain, United States Bankruptcy Judge, Southern District of New York; Peter R. Fisher, Senior Fellow, Center for Global Business and Government at the Tuck School of Business at Dartmouth University; Richard J. Herring, Co-Director, The Wharton Financial Institutions Center and Professor of Finance, The Wharton School, University of Pennsylvania; Donald Kohn, Former Vice Chairman, Board of Governors of the Federal Reserve System and Senior Fellow, Economic Studies Program, Brookings Institution; Timothy J. Mayopoulos, President of Blend, Former President and Chief Executive Officer of Fannie Mae; Sandie O’Connor, Former Chief Regulatory Affairs Officer for JPMorgan Chase & Co.; Douglas L. Peterson, President and Chief Executive Officer, S&P Global; John S. Reed, Former Chairman and CEO of Citigroup and Former Chairman, Corporation of Massachusetts Institute of Technology; and Gary H. Stern, Former CEO and President, Federal Reserve Bank of Minneapolis and Presiding Director and Chair of the Board Risk Committee at the Depository Trust;

Member William H. Donaldson, Former Chairman, U.S. Securities and Exchange Commission, was absent from the meeting.

Members of the Corporation’s Board of Directors present at the meeting were: Jelena McWilliams, Chairman, and Martin J. Gruenberg, Director (Appointive).

Introductory Remarks

Chairman McWilliams opened and presided at the meeting. She began by recognizing the passing of Paul Volcker, former Chair of the Federal Reserve and original member of the Committee, in late 2019. The Chairman noted the Committee was founded in 2011 to bring together experts in the field to help the FDIC achieve its systemic resolution mission.

Chairman McWilliams welcomed five new members to the Committee: Dr. Ben S. Bernanke, Gary Cohn, Hon. Robert Drain, Timothy J. Mayopoulos, and Sandie O’Connor. Dr. Bernanke is a Distinguished Fellow in residence with the Economic Studies Program at the Brookings Institution and Former Chairman of the Board of Governors of the Federal Reserve System. Mr. Cohn was the former assistant to the President for Economic Policy and Director of the National Economic Council. The Honorable Robert Drain is a United States Bankruptcy Judge for the Southern District of New York. Mr. Mayopoulos is the President of Blend and previously served as the Former President and Chief Executive Officer of Fannie Mae. Ms. O’Connor is the Former Chief Regulatory Affairs Officer for JPMorgan Chase & Co. Chairman McWilliams then thanked and welcomed back the returning members of the Committee.

Chairman McWilliams introduced Ricardo Delfin, Director, Division of Complex Institution Supervision & Resolution to moderate the meeting. Mr. Delfin began by explaining that the purpose of the meeting was to update the Committee on the FDIC’s efforts regarding systemic resolution. He provided general background information regarding resolution plans and the Orderly Liquidation Authority (“OLA”) under Title II of the Dodd-Frank Act and the FDIC’s role in systemic resolution. Mr. Delfin observed that the Committee has been very helpful in thinking through the challenges associated with the resolution of systemically important financial institutions and that the FDIC looks forward to further exploring these issues with the Committee.

Mr. Delfin next discussed the evolution of the Committee’s subject matter since 2011, noting the establishment of the OLA, the development of the Single Point of Entry (“SPoE”) strategy, and implementation of a series of structural reforms such as the total loss absorbing capacity (“TLAC”) requirement. He stated engagement with the Committee and the Federal Reserve Board (“FRB”) has allowed the FDIC to make many improvements in the area of systemic resolution. He noted that the advice of the Committee contributed to the decision to combine resolution planning under the Bankruptcy Code and the OLA. He also stated that there has been
a shift in resolution planning from focusing on hypothetical resolution test scenarios to measuring resolution capabilities.

Mr. Delfin described the internal changes the FDIC has made to improve its systemic resolution capabilities, highlighting the creation of the Division of Complex Institution Supervision & Resolution ("CISR") in July 2019. He explained that the creation of CISR simplifies FDIC structures to enhance supervision of and resolution preparedness for complex financial institutions, bolsters cross-border planning capabilities, and leverages skill sets.

Session 1: Resolution Planning Under Bankruptcy

Mr. Delfin introduced Lori Quigley, Corporate Expert, CISR and Jason Cave, Corporate Expert, CISR to discuss Title I developments since the Committee’s last meeting in 2018.

After Ms. Quigley provided general information on the resolution plan review process conducted by the FDIC and FRB, Mr. Cave discussed in detail the review process for 2019, the first year the FDIC began capabilities testing. Mr. Cave provided some highlights from the feedback letters sent to firms in this cycle. He noted that there were no deficiencies among the firms, but there were certain firm shortcomings regarding governance capabilities in times of stress. Further, he said the U.S. Global Systemically Important Banks ("G-SIBs") made significant progress across financial and operational capabilities generally and various firms made meaningful improvements since 2017 to address firm-specific shortcomings.

Ms. Quigley next discussed critical operations determinations. She explained critical operations are those operations at certain firms whose failure or discontinuance would threaten U.S. financial stability. She explained critical operations are identified either through a firm’s internal processes or jointly by the FDIC and FRB. She stated the critical operations determination is an important aspect of the Title I process, but it can also be used to inform Title II readiness. She noted the agencies will refresh critical operations determinations every six years.

Ms. Quigley then discussed the amended resolution plan rule, which became effective December 31, 2019. She stated the amended rule introduced a graduated set of requirements under which plan content and submission frequency are differentiated based on a firm’s size and risk to the U.S. financial system. To do this, she explained, the amended rule created three filing groups: biennial filers, triennial filers, and triennial reduced filers. A firm’s group, she said, determines its resolution plan submission schedule and plan content requirements. Ms. Quigley added that the amended rule creates three types of resolution plans: full plan, targeted plan, and reduced plan. She also noted the amended rule increased the asset threshold of firms for coverage under the rule.

Ms. Quigley and Mr. Cave then turned the presentation over to Jim McGraw, Deputy Director of Risk Assessment, CISR, who addressed the lessons learned from the market volatility caused by the COVID-19 pandemic. Mr. McGraw began by stating that there had been significant supervisory and Title I advances since the passage of the Dodd-Frank Act, as evidenced by increases of both capital and liquidity at the beginning of 2020. Mr. McGraw then mentioned
that there have also been advances in the Title I living wills, particularly in the areas of governance, liquidity, and operations.

Turning to the COVID-19 pandemic specifically, Mr. McGraw explained the stress of the pandemic suggests changes in future stress testing activities. He noted that, in response to COVID-19, firms had taken steps to remove redundancies to ensure workflows are less complex and communication flows are more effective so remote work is feasible. He summarized by saying the advances made in regard to Title I resolution plans prior to 2020 had strengthened the overall condition and resiliency of firms going into the pandemic, as evidenced by quick adaptions at the start of the pandemic.

Session 2: Resolution Planning Under the Orderly Liquidation Authority

Mr. Delfin introduced Ryan Tetrick, Deputy Director for Resolution Readiness, CISR to discuss resolution planning under the OLA.

Mr. Tetrick discussed how far the FDIC has come in implementing and operationalizing the SPoE strategy, which a bank adopts if it plans for the resolution in its home jurisdiction to bail in debt and recapitalize a single parent company, leaving operating subsidiaries to continue unaffected, as a strategic framework for G-SIB resolution for both Title I and Title II plans. He also noted industry policy developments and structural changes, such as establishment of clean holding companies, implementation of TLAC requirements, and legal entity rationalization, have supported SPoE strategy implementation. Further, he mentioned many foreign jurisdictions have also adopted the SPoE strategy. The Committee then held a discussion concerning issues related to the SPoE strategy.

Mr. Tetrick then discussed the steps the FDIC is taking to operationalize the SPoE strategy. He described a general timeline for a hypothetical Title II resolution with FDIC planning commencing prior to failure. He indicated that potential timelines for Title II resolutions are highly variable, so this preparation may not always be possible.

Mr. Tetrick then turned to the topic of liquidity and funding needs, noting that liquidity will often cause G-SIB resolution. He explained the FDIC is utilizing and adapting firm internal G-SIB resolution liquidity modeling capabilities to project liquidity needs in resolutions. Further, he described a recent interagency simulation of funding the Orderly Liquidation Fund.

Next, Mr. Tetrick discussed coordination among the domestic and foreign authorities. He described how plan reviews and Crisis Management Groups have strengthened those relationships over time. He also stated the FDIC participates in periodic updates of the “Three Keys” appointment process with the domestic regulators. On the cross-border front, he highlighted a program involving the U.S. and U.K. resolution authorities and the European Banking Union on G-SIB resolution, which discusses and conducts G-SIB resolution exercises. He said that the program has been immensely helpful, yielding a reciprocal relationship among the authorities. Mr. Tetrick noted that the FDIC is planning on participating in another cross-border simulation of a hypothetical G-SIB resolution this fall.
Mr. Tetrick concluded with a discussion of bridge financial company governance and oversight. He stated that formation of a bridge financial company would be likely in a G-SIB resolution, requiring the FDIC to constitute a board and executives to manage it. To do this, he explained, the FDIC maintains an executive search program to identify qualified candidates for these positions. He also noted the FDIC conducted a simulation where it completed all of the organizational documents needed to set up a bridge financial company. Mr. Tetrick then outlined potential bridge financial company activities that the FDIC and the bridge financial company board and CEO would oversee.

Next, Mr. Delfin noted that while the FDIC has been focusing on G-SIB resolution, the FDIC has also been working on issues related to non-bank resolution. Mr. Delfin then turned the presentation over to Alexandra Barrage, Associate Director, Resolution Strategy & Policy Analysis, CISR to discuss resolution planning for broker-dealers.

Ms. Barrage began by noting that the FDIC does not have direct supervisory authority over broker-dealers or central counterparties (“CCPs”), nor does it have access to certain data or the benefit of a Title I resolution plan for these entities. This, she commented, presents many challenges to resolution planning in this area. To work around these challenges, she explained that the FDIC works with other regulators, monitors market data, and considers how different valuation and resolution strategies can be applied to such firms.

Ms. Barrage then discussed the new broker-dealer rule the FDIC published in June 2019 with the Securities and Exchange Commission which contains clarifying provisions relating to broker-dealer resolution in the event the SPoE strategy is not utilized. She explained that the rule provides for the mechanics of resolution, including payments to customers of the failed firm.

Mr. Delfin next introduced Jenny Traille, Chief, Policy Analysis, CISR to discuss resolution planning for CCPs. Ms. Traille began by explaining that if a systemically important CCP was resolved under Title II of the Dodd-Frank Act, the FDIC would be the resolution authority, but noted that CCPs are resilient and resolution should be unlikely. She provided the goal of a CCP Title II resolution would be to avoid or mitigate the serious adverse effects on U.S. financial stability and maintain the provision of critical clearing functions. She discussed some challenges to CCP resolution, including: that the FDIC is not a backup supervisor for CCPs; CCPs do not submit resolution plans; a CCP may likely fail with little lead time; and CCPs generally do not operate with loss absorbing funds that could be used to recapitalize critical operations. Ms. Traille explained CCP resolution planning is less developed than G-SIB planning, but the FDIC aims to create strategies to increase optionality and capability to deal with the obstacles to CCP resolution. The Committee then held a general discussion regarding issues related to the presentation.

**Committee Member Comments and Concluding Remarks**

Mr. Delfin encouraged Committee Members to participate freely in the program with questions and comments, and various Members did so throughout the presentations. In concluding the meeting, Mr. Delfin thanked the Committee members for these questions and comments. Mr. Delfin then highlighted eight sets of these comments and questions:
1. Dr. Bernanke asked whether the FDIC takes into consideration a firm’s stress testing in its determination of resolution readiness. He expressed a concern that various resolution approaches may work when there is a single firm in stress but it is unclear how the approaches will work when there are multiple firms in stress.

2. Chairman Bair noted that many of the U.S. G-SIBs have benefitted from interventions made by the FRB in response to the COVID-19 pandemic, while regional banks that engage in less diversified activities are facing greater challenges and inquired about the FDIC’s preparedness in regards to regional bank resolution. Chairman Bair also inquired into how long the FDIC expects a bridge financial company to be in place during a Title II resolution.

3. Member O’Connor noted the Committee’s focus on resolvability under Title I and Title II but suggested that resiliency deserves consideration. She asked whether there has been a shift in resolution planning from focusing on a specific event that could push a firm into bankruptcy to understanding what level of resources are required for the firm to avoid failure, and how this connects to the resources required in resolution.

4. Director Gruenberg mentioned that under the broad powers of Title II both bank holding companies and non-banks would have to be resolved by the FDIC if failure would have a systemic impact on the US financial system. He said this shows that resolution risks are not limited to the banking system and that the FDIC will have to think about risks in an interconnected way.

5. In regard to market responses to the COVID-19 pandemic, Member Fisher questioned whether any conclusions can be drawn from recent events in regard to firm liquidity management and market resiliency given the actions by the FRB to provide liquidity to the market.

6. Member Herring asked how the required liquidity ratios and the resolution triggers interact and if there is any reason to believe firms are holding more liquidity due to the resolution triggers. He suggested that firms are unsure whether the triggers are a buffer or a minimum.

7. In regard to resolution planning and bankruptcy, Judge Drain, Judge Chapman and Member Cohen each discussed the relationship between bankruptcy planning in the U.S. and in foreign jurisdictions, the role of foreign regulators in bankruptcy, and the need for foreign regulators to understand how the U.S. Bankruptcy Code works.

8. On the topic of governance in the event the FDIC charters a bridge financial company to help resolve an institution, Member Cohn commented on CISR’s proposed relationship between the FDIC as single shareholder and the bridge’s board and management as to control over the bridge financial company and discussed the challenges of bridge financial company governance.
Mr. Delfin said that he considers these to be a to-do list of sorts, for the FDIC to consider and address.

Chairman McWilliams then concluded the meeting with an expression of thanks to the panelists and Committee members for their valuable contributions to the FDIC.

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There being no further business, the meeting was adjourned at 12:06 p.m.

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Debra A. Decker
Deputy Executive Secretary
Federal Deposit Insurance Corporation
and Committee Management Officer
FDIC Systemic Resolution Advisory Committee
Minutes

of the

Meeting of the Systemic Resolution Advisory Committee

of the

Federal Deposit Insurance Corporation

Held in the Board Room

Federal Deposit Insurance Corporation Building

Washington, D.C.

Open to Public Observation

October 1, 2020 – 9:00 A.M.

I hereby certify that, to the best of my knowledge, the attached minutes are accurate and complete.

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Jelena McWilliams
Chairman
Board of Directors
Federal Deposit Insurance Corporation