



# **Office of Complex Financial Institutions International Coordination Group**

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## **International Resolution Coordination Overview**

**January 25, 2012**

# Our Mission

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- 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.
- To support the execution of an orderly resolution strategy by seeking the cooperation of key host country supervisors to:
  - mitigate systemic shocks by limiting precipitous interventions; and
  - preserve global franchise value by sustaining critical operations and core functions at viable foreign entities.

# Our Approach to Crafting an Effective International Resolution

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- The key to a successful cross border resolution of a G-SIFI is to keep it as simple as possible by:
  - Identifying the jurisdictions where important functions and critical operations are located in advance;
  - Identifying the nature of the legal entities conducting those activities and the type of local licenses held;
  - Engaging in purposeful dialogue in advance with applicable local regulators, identifying obstacles to orderly resolution and addressing them through both rule changes and bilateral cooperation; and
  - Concluding MOUs with affected jurisdictions covering information sharing and cooperation both in advance of, and during, a crisis.

# Identifying Key Jurisdictions – Overview of Heat Map Exercise

Reported Foreign Activity* by Jurisdiction**	SIFI A	SIFI B	SIFI C	SIFI D	SIFI E	Total Reported Foreign Activity by Jurisdiction
United Kingdom	93%	91%	84%	82%	89%	88%
Japan	1%		5%	5%	4%	3%
Australia	1%	4%	3%			2%
Singapore	1%	2%	2%			1%
Mauritius				8%		1%
Cayman Islands				3%	2%	1%
Brazil			1%			0.4%
South Africa	1%					0.2%
India		1%				0.2%
Germany					2%	0.1%
Ireland				1%		0.1%
Luxembourg					1%	0.1%
Bahamas						0.1%
<b>Total</b>	<b>97%</b>	<b>98%</b>	<b>95%</b>	<b>99%</b>	<b>98%</b>	<b>97%</b>

\* “Reported Foreign Activity” encompasses sum of (i) assets, (ii) off balance sheet derivatives notional amounts, and (iii) other off balance sheet items (e.g., Letters of credit, guarantees and unused commitments) of reported foreign subsidiaries and branches.

\*\* For each SIFI, information is populated only for the top 5 countries. The blanks indicate that the corresponding jurisdictions are not one of the top 5 jurisdictions of the identified SIFI.

# Heat Map Exercise – A Few Findings

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- For each of the top 5 U.S. SIFIs:
  - over 90% of the “total reported foreign activity” is located in 1 to 3 foreign jurisdictions.
  - over 80% of the “total reported foreign activity” comes from legal entities located in United Kingdom.
- 13 jurisdictions cover over 97% of “total reported foreign activity” of the top 5 U.S. SIFIs.
- Over 85% of each SIFI’s “total reported foreign activity” comes from 2 to 4 legal entities.

## Identify Potential Legal Obstacles to the Successful Execution of a Resolution Strategy

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- Change of control requirements
- Ring-fencing and liquidation triggers
- Lack of broad based stay of close-out/netting of derivatives and other qualified financial contracts (QFCs)
- Divergent insolvency legal frameworks
- Diverse regulatory frameworks

# Coordinate with Foreign Regulators

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- Bilateral Memoranda of Understanding (MOUs):
  - Existing MOUs. We have existing MOUs concerning resolution matters with the following authorities:
    - Bank of England
    - UK Financial Services Authority
    - China Banking Regulatory Commission
  - Other Jurisdictions. We are initiating or will initiate discussion with authorities in Ireland, Japan, India, Netherlands, Brazil, Germany, Cayman Islands, Mexico, Singapore, Australia, Mauritius, South Africa, Hong Kong, Luxembourg and the Bahamas to conclude MOUs in 2012.

# Other Initiatives in 2012

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- Financial Market Utilities (FMUs):
  - Heat map usage of FMUs by G-SIFIs and identify FMUs that are critical to each G-SIFI
  - Ascertain how appointment of receivership at top parent level may affect a SIFI's membership with critical FMUs
- Key Support Operations:
  - Identify data centers and profit centers



# The Bottom Line...

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- Large, globally active financial firms are built. They can be restructured on a global basis using a variety of techniques in a resolution scenario, just as they do in a going concern, “business as usual” context.
- Boards of Directors authorize such transactions all the time to maximize shareholder value.

# Tools under Dodd-Frank Act

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- We have powerful tools under Title I and Title II of the Dodd-Frank Act to help facilitate such actions:
  - Advance planning and knowledge gathering through the “living wills” exercise
  - Ability to make liquidity available to the failed institution’s viable businesses, as necessary
  - Ability to stay close-out and netting of derivatives and other QFCs domestically
  - Ability to form bridge institutions and, if necessary, separate businesses and assets to achieve various objectives

# Keys to a Successful Cross Border Resolution Are...

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- In summary, the keys to a successful cross border, orderly resolution of a globally active institution include:
  - advance planning
  - a good understanding of the institution's global footprint
  - active advance coordination with fellow regulators
  - jurisdictions having harmonized resolution tools
    - Work is underway under the auspices of the Financial Stability Board to achieve this objective.

# FDIC Engagement in Multilateral Resolution Policy-making

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- Basel Committee - Cross-Border Crisis Management Group (CBRG)
  - FDIC Co-Chair Group since inception in 2007
  - 10 Recommendations in 2008 Report
  - 2010 Survey: Found some progress but much yet to be done
- Financial Stability Board
  - Key Attributes for Effective Resolution Regimes
    - Comprehensive set of core elements that the FSB considers to be necessary for an effective resolution regime. Their implementation should allow authorities to resolve financial institutions in an orderly manner without taxpayer exposure to loss from solvency support, while maintaining continuity of their vital economic functions.
  - Crisis Management Groups for each G-SIFI
    - Timeframes for resolvability assessments and recovery and resolution plans