



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

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## **Resolution Strategy Overview**

**January 25, 2012**

## Discussion Outline

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- Transaction Overview
- Structural Framework
- Financial Framework
- Governance

# Transaction Overview

# Introduction

## ■ Company Highlights

- Four Primary Lines of Business: Commercial Banking, Capital Markets, Global Asset Management, and Transaction Services
- 100,000+ employees in 50 countries serving institutions as well as individuals
- Over 1,500 consolidated subsidiaries and affiliates plus over 5,000 unconsolidated affiliates and investments
- Net Income \$15 billion (2011): Banking – 60%, Capital Markets – 23% Asset Management – 17%
- Over \$30 Trillion notional value of derivative trades, with over 1 million open positions

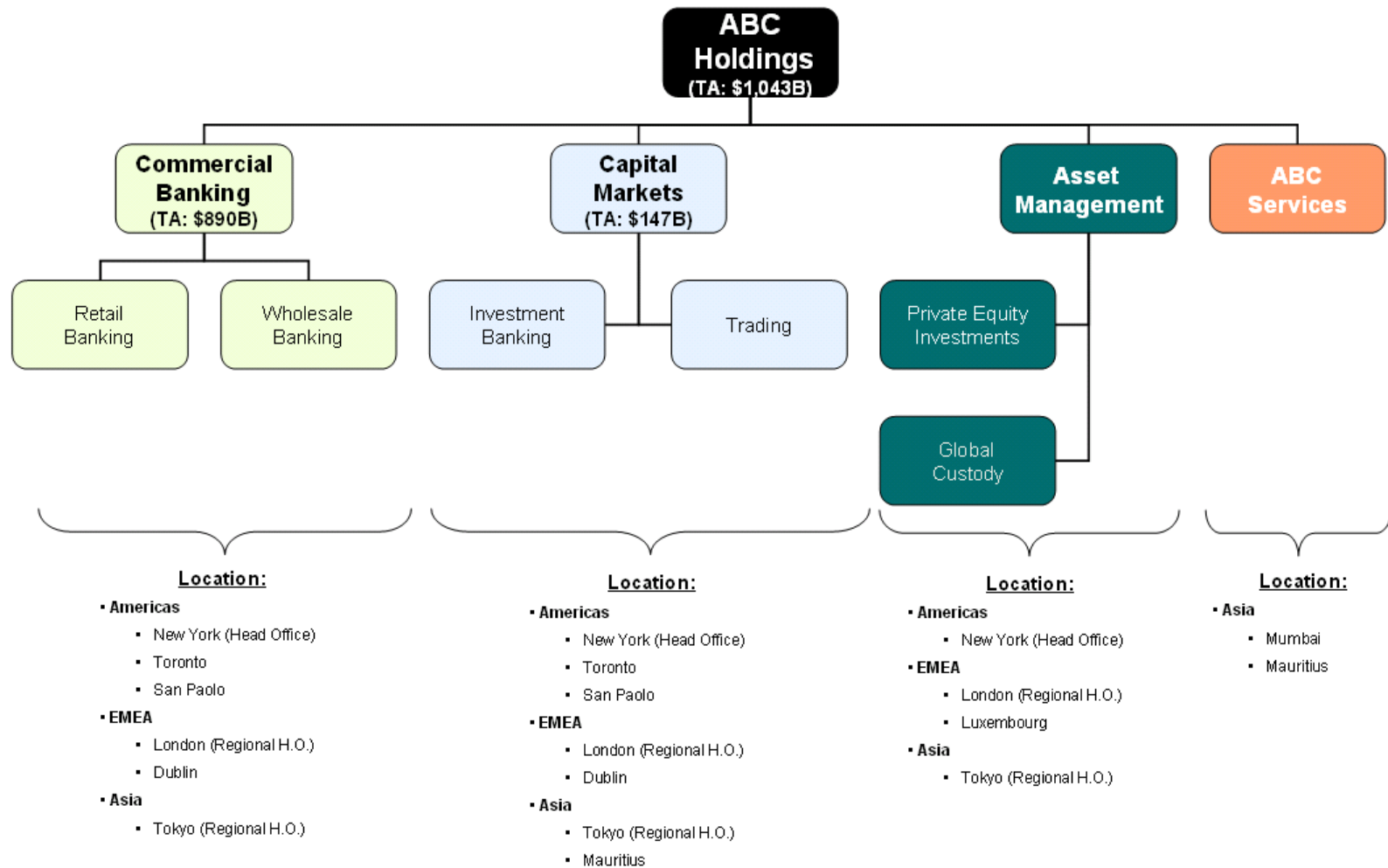
## ■ Systemic Factors

Size	Leverage and Liquidity	Interconnections	Complexity	Substitutability	Other Resolvability Considerations
\$1.0 trillion in total assets, \$700 billion US assets, with a significant global presence in the UK and Japan. Over \$5 Trillion in assets under custody	Dependent upon market funding via unsecured short and intermediate term borrowing for a material portion of its operations	Material US and global footprint with off balance sheet exposures	Diversity of product offerings; interconnections across jurisdictions, counterparties, and entities	The sheer size and scope of its operation would require significant time for clients to move their business to other competitors. The continuity of credit availability to US customers through alternative means is another area of concern.	Will require close coordination with foreign central banks, regulators, resolution authorities, and FMUs to mitigate knock-on effects and minimize disruption. Intercompany debt and back to back derivative transactions.

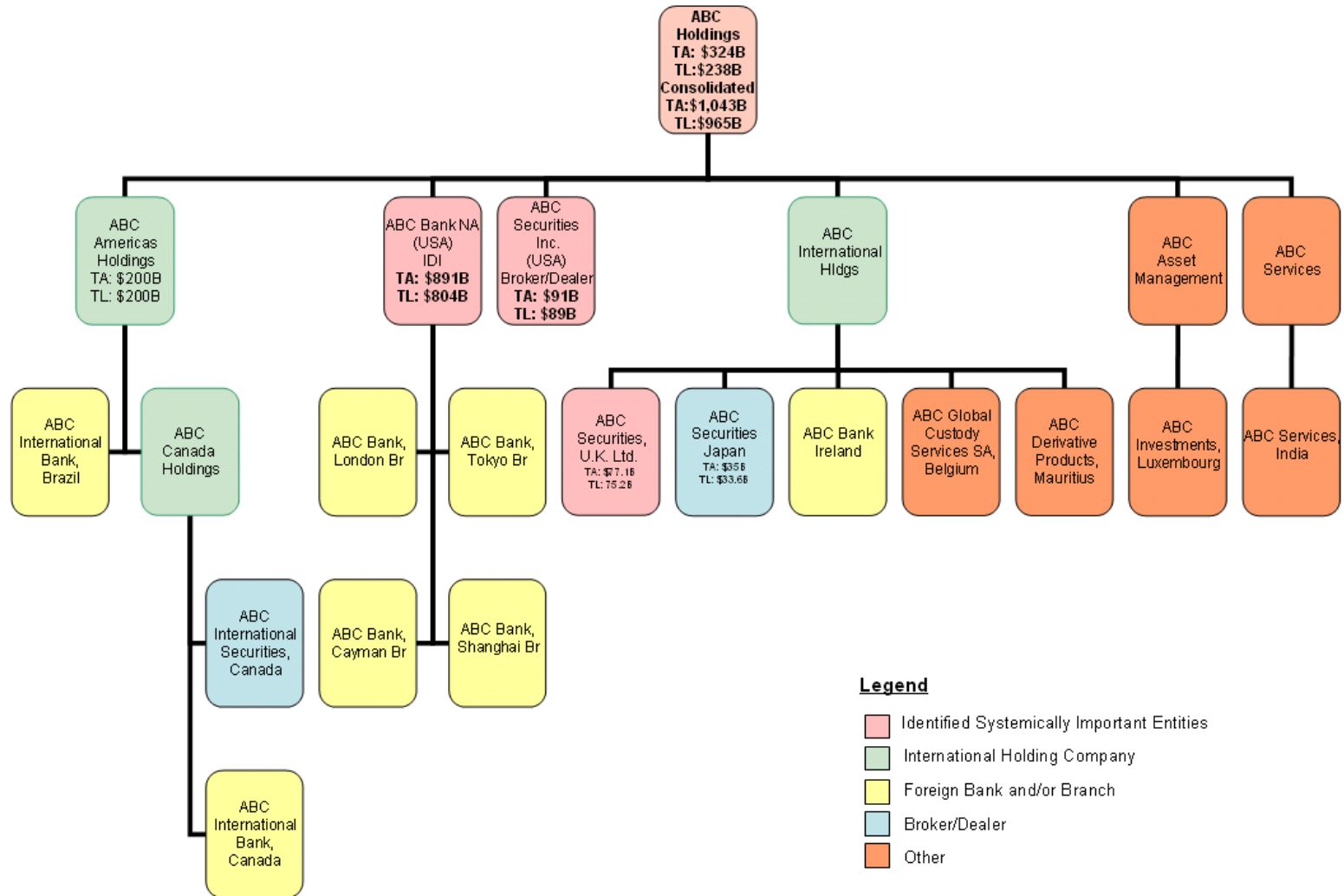
## ■ Resolution Considerations:

- A global commercial bank presence with a material global broker-dealer footprint,
- Dependent upon deposits as a primary funding source with alternative funding sources in the form of repo and securities lending,
- Significant deposits related to sweep activities booked in the Cayman Islands,
- A large derivatives book that is managed among at least four operating units in the U.S. and abroad in the U.K., Ireland, Japan, China and Mauritius.

# Organization Structure by Lines of Business & Jurisdiction

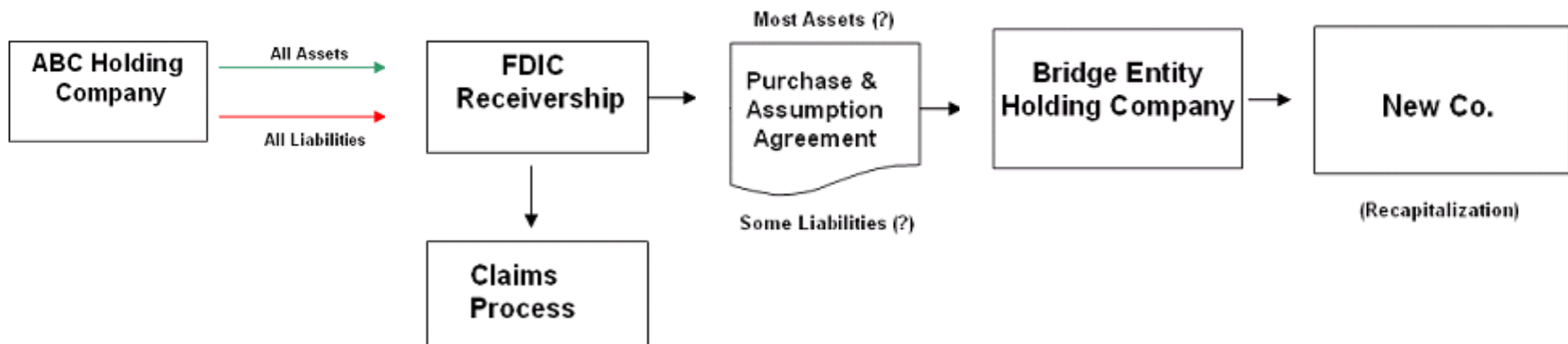


# Organization Structure by Legal Entity



# Single Receivership-Parent Company Entry

## SIFI Resolution Process-Post Failure Flow of Assets and Liabilities



## Single Receivership-Parent Company Entry (Cont.)

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- Single entry method of resolution
  - Title II receivership at parent company
    - Transfer receivership assets (primarily investments in subsidiaries and loans to subsidiaries) to bridge holding company
    - Subordinated debt and equity remain in receivership, certain other senior unsecured debt and contingent liabilities may or may not pass to bridge holding company
  - Equity solvent subsidiaries remain open
    - Receiver provides funds/guarantees, as necessary, to bridge holding company through the OLF to provide liquidity
    - Bridge holding company serves as “source of strength” recapitalizing subsidiaries, as necessary
    - Bridge holding company will downstream liquidity, as necessary, to subsidiaries through intra-company advances
- In a single receivership model, only the parent company is placed into receivership and, consequently, its creditors will be subject to haircuts. Equity solvent subsidiaries will continue to operate



## **Alternative: Multiple Receiverships-Parent & Subsidiaries Entry**

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- Depending on the financial condition of the group members, there may be multiple insolvency proceedings:
  - FDIA receiverships for IDI subsidiaries
    - Transfer operations, assets and deposits to bridge bank(s)
  - Dodd-Frank Orderly Liquidation Authority receiverships for systemically important non-bank entities/parent
    - Transfer operations, assets and certain liabilities to newly formed bridge financial company(ies)
  - Bankruptcy for non-viable, non-IDI subsidiaries (certain other entities go through state liquidation process or modified forms of bankruptcy)
  - Administration proceedings or equivalent for foreign operations
  
- Losses reside within each entity
  
- Pre-resolution intra-affiliate relationships, such as intra-company debt/guarantees and matched derivative bookings, likely to result in receiverships/bankruptcy estates having adverse interests and lead to destruction of franchise value

## **Transaction Overview: Issues for Discussion**

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### Recapitalization

- Mechanisms available to ensure sufficient debt at holding company and sufficient “bail-in” debt between holding company and subsidiaries to enact necessary recapitalization
- Transfer of all assets of receivership to bridge versus establishing “bad bank” outside of bridge

### Liquidity

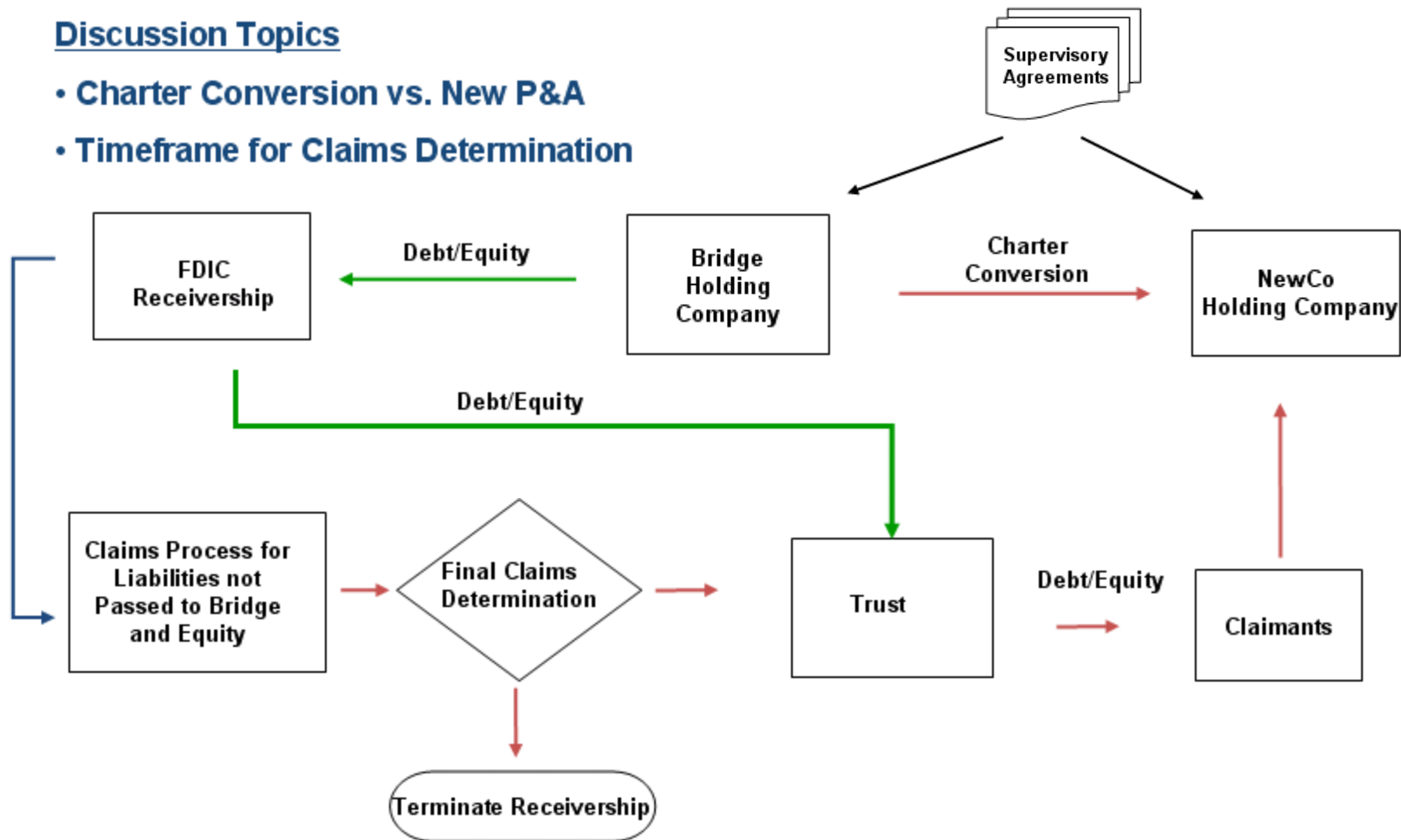
- Liquidity levels at international operating subsidiaries and branches
- Potential need for home and host liquidity programs at time of crisis/stress

# **Structural Framework**

# SIFI Resolution: Exit Process

## Discussion Topics

- Charter Conversion vs. New P&A
- Timeframe for Claims Determination

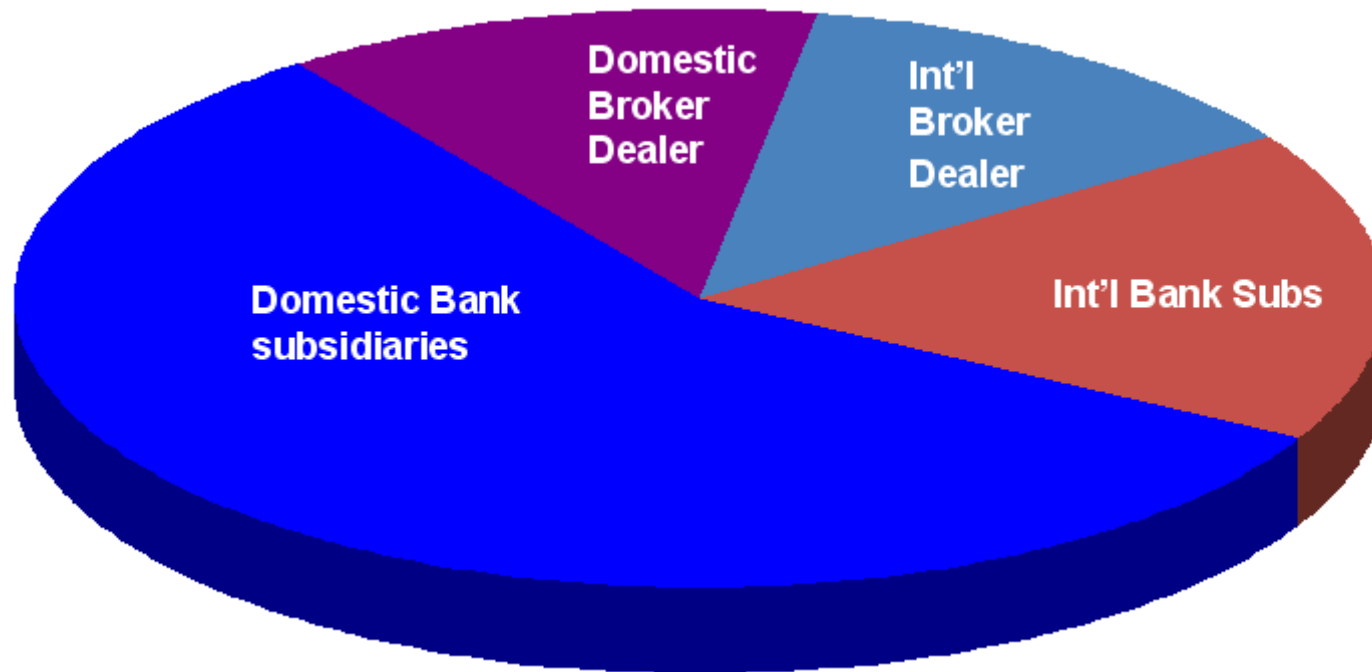


# **Financial Framework**

## Recapitalization Process

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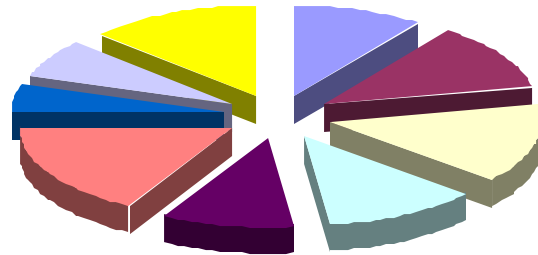
Valuation of the Enterprise Determines the “Size of Pie” Available to All Claimants



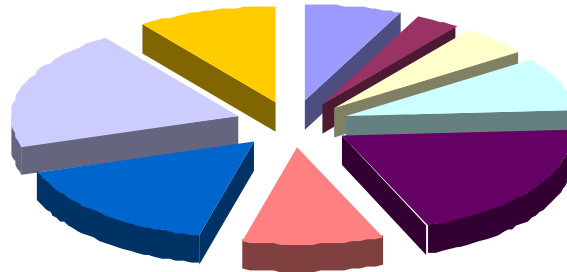
## Recapitalization Process (Cont.)

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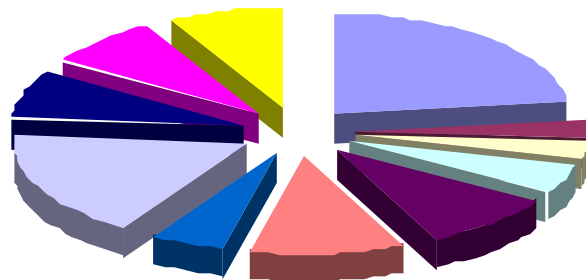
Claims Process Determines the “Slice of the Pie” for Each Claimant



**Unsecured Creditor Claimants**



**Subordinated Creditor Claimants**

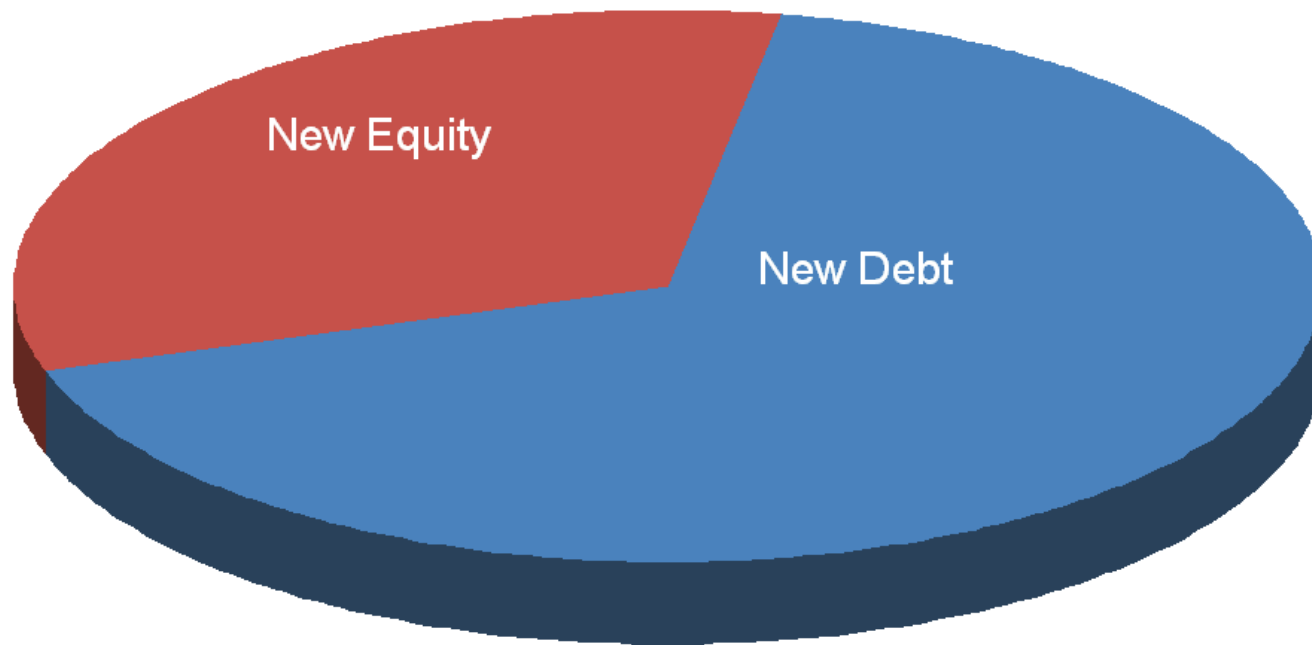


**Equity Claimants**

## Recapitalization Process (Cont.)

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Hypothetical Recap. by Senior Unsecured Claimant Class

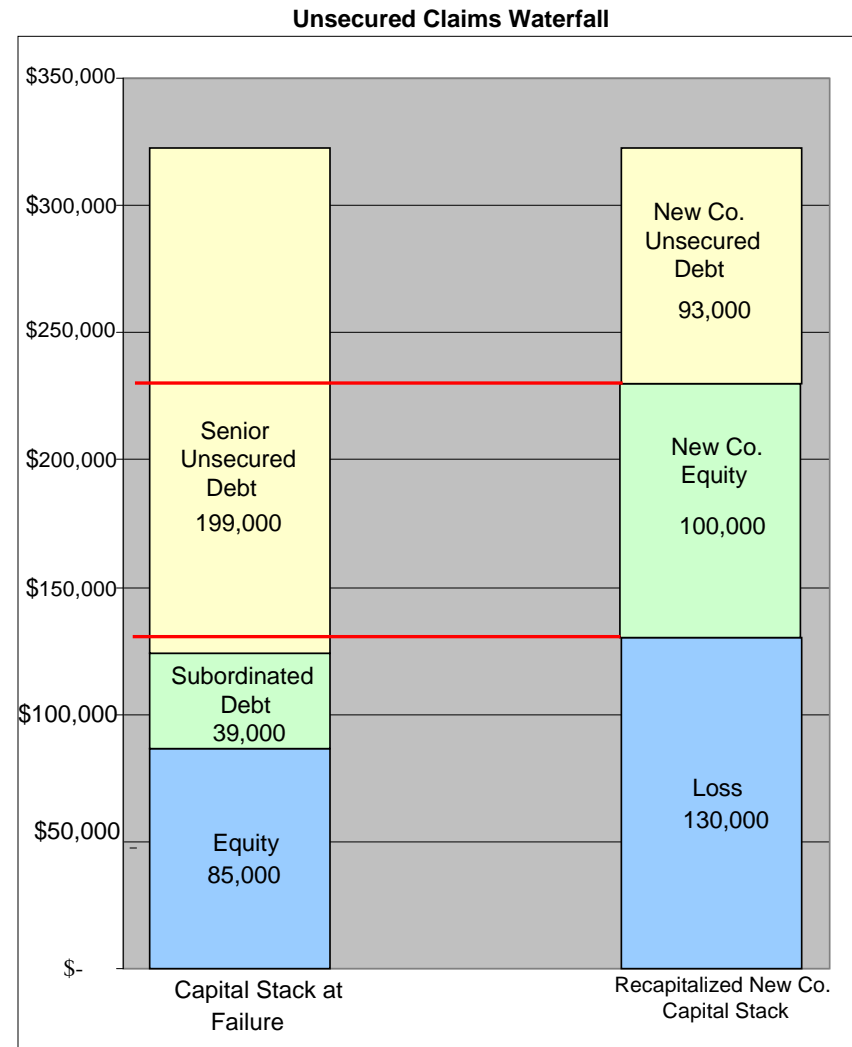




# Single Receivership: Loss Estimate

## Hypothetical Loss Estimate

- Estimated Loss Range \$120B-\$135B
  - Market Based Asset Valuations
  - Franchise value estimates for business lines
  - Credibility
- Senior Unsecured General Creditors haircut 3%
- Senior Unsecured General Creditors exchange claims for:
  - New debt instruments
  - Convertible debt instruments
  - Equity (preferred/common)
- Former subordinated debt and equity holders could receive either:
  - Call options on equity to be distributed to senior classes
  - Warrants or other subordinate equity interests



## Financial Framework: Issues for Discussion

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### Valuation

- Mechanisms available to deal with valuation uncertainty affecting both size and distribution of “the pie” for each claimant
  
- Validation and market acceptance of valuation employed
  - Supervisory Stress Tests
  - Equity and debt market valuations
  - Independent expert valuations
  - Ensuring appropriate feedback loop

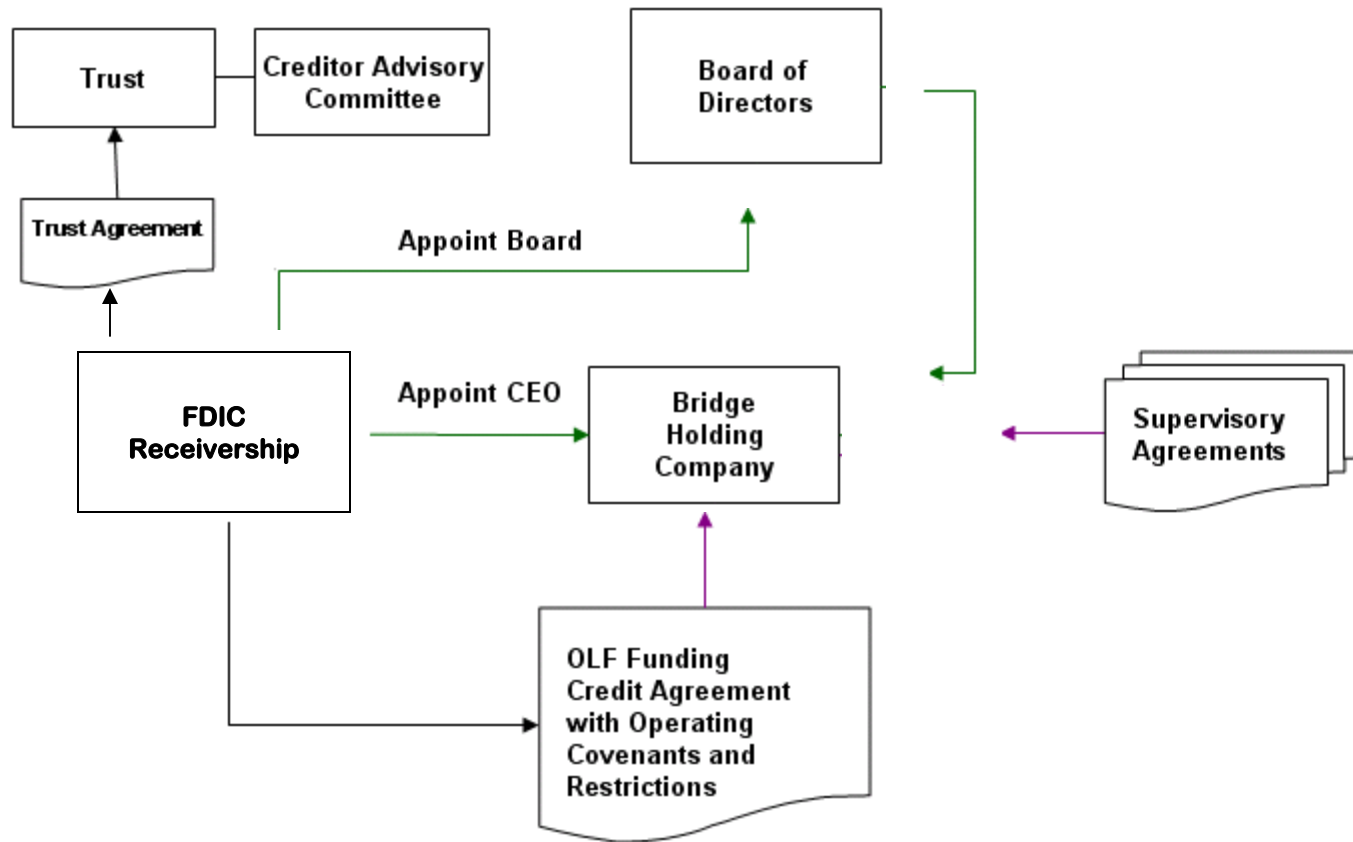
### Market Expectations

- Additional actions that should be taken to enhance transparency, market acceptance, market liquidity to newco/bridge, liquidity of claims/new securities, and appropriate valuations
  
- Communications to improve market/public understanding of Title II, including that at no time taxpayers are at risk

# Governance

# Single Receivership: Corporate Governance

## SIFI Resolution Process-Post Failure Corporate Governance



## **Governance: Issues for Discussion**

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- How best to develop a pool of potential CEOs & Board Members and keep pool current
- Achieving clarity on role and expectations of new CEO, Board, Trustees, Advisory Committee, and balance required among different goals and constituencies
- Role of FDIC as receiver and Bridge Holding Company operations