FDIC Systemic Resolution Advisory Committee

October 15, 2024

Federal Deposit Insurance Corporation

FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION
SYSTEMIC RESOLUTION ADVISORY COMMITTEE

Welcome and Introduction

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2024 Meeting Agenda

Welcome and Introduction (9:00 a.m. – 9:15 a.m.)

Session 1: The 2023 Bank Failures: Resolution Policy Responses (9:15 a.m. – 10:45 a.m.)

- Guest Speaker: Stefan Walter

Break (10:45 a.m. – 11:00 a.m.)

Session 2: Title II GSIB Resolution: Transparency and Communication (11:00 a.m. – 12:30 p.m.)

Lunch (12:45 p.m. – 1:45 p.m.)

Session 3: CCP Resolution (2:00 p.m. – 2:45 p.m.)

Closing Remarks (2:45 p.m. – 3:00 p.m.)

Session 1: The 2023 Bank Failures: Resolution Policy Responses

Resolution Plan Rule for Large Regional Banks
(12 CFR 360.10)

Final rule for Insured Depository Institution (IDI) resolution plans published July 9, 2024

- Requires identified strategy, strategic analysis, critical information and key capabilities for resolution readiness
- Supersedes the 2012 rule, related policies and guidance

Scope and timing

- Applies to IDIs with at least $50 billion in total assets
- Establishes two levels of resolution submissions
  - Resolution plans for IDIs with $100 billion or more in total assets (group A covered IDIs)
  - Informational filings for IDIs with $50 billion to $100 billion in total assets (group B covered IDIs)
- Three-year cycle for most IDIs with interim supplement in off years; two-year for subsidiaries of U.S. Global Systemically Important Banks (GSIBs)

Resolution Plan Rule for Large Regional Banks
(12 CFR 360.10)

Resolution plans for group A covered IDIs ($100 billion or more in total assets)

- Plan must identify a comprehensive strategy from point of failure to liquidation or return of ownership interests to the private sector
  - Default strategy is bridge depository institution
  - Valuation capabilities to support FDIC’s least-cost test analysis in any actual failure scenario
- Comprehensive information required to support strategic alternatives
- Engagement and capabilities testing
  - Deeper dives into particular areas of interest or concern
  - Evaluate and confirm capabilities, e.g., virtual data room, identification and retention of key personnel

Resolution Plan Rule for Large Regional Banks
(12 CFR 360.10)

Informational filings for group B covered IDIs (at least $50 billion and less than $100 billion in total assets)

- Requires submission of all rule content items, <u>except</u> strategy-related components and valuation capabilities
- Engagement and capabilities testing to focus on areas most relevant to group B IDIs

Enhanced informational content required for all submissions

- Key personnel
- Legal and functional organizational structure
- Franchise components
- Deposit activities
- Continuity of critical services
- Communications capabilities
- Management information systems
- Digital services and electronic platforms

Resolution Plan Rule for Large Regional Banks
(12 CFR 360.10)

Looking forward

- Initial submissions commence in 2025
  - Group A: start submitting resolution plans and interim supplements by July 2025
  - Group B: start submitting informational filings by October 2025 and April 2026
- Outreach to covered IDIs underway
  - Group and IDI-specific outreach sessions to familiarize firms with the new rule
  - Ongoing office hours to address firms' questions and issues as they arise
  - Publication of responses to FAQs on FDIC website

Dodd-Frank Act Title I Resolution Planning Guidance

Scope of covered companies

- Category II and III companies under the Federal Reserve's tailoring rules
- Generally, ≥ $250B in total assets, but not U.S. GSIB

Reasons for issuing this guidance

- Effects of failure and conditions surrounding failure
- Prior plan review experience
- Clarifies expectations for companies that had not previously received guidance

Select key components

- Expectations correspond to the capabilities required by the selected strategy

NPR on Long-Term Debt: Status Update and Comments

Status update:

- NPR on long-term debt issued on August 29, 2023
- Received over 50 comments

Commenter areas of focus:

- Minimum denomination
- Dual HoldCo/IDI requirement and downstreaming frictions
- Calibration

Special Assessment: Systemic Risk Exception

- On March 12, 2023, the systemic risk exception was invoked to allow the FDIC to complete its resolution of both Silicon Valley Bank and Signature Bank in a manner that fully protected depositors

- The full protection of depositors, rather than imposing losses on uninsured depositors, was intended to strengthen public confidence in the nation's banking system

Special Assessment: Latest Loss Estimate

- The FDIC is required by statute to recover the loss to the Deposit Insurance Fund (DIF) arising from the use of a systemic risk exception through one or more special assessments
- Loss estimates as of June 30, 2024:

Dollar amounts in billions	**Silicon Valley Bank**	**Signature Bank**	**Total**
Estimated losses:	$19.6	$2.8	**$22.4**
Percentage of deposits that were uninsured at time of failure:	*88%*	*67%*	
Estimated losses attributable to the protection of uninsured depositors, to be recovered through the special assessment:	$17.3	$1.9	**$19.2**

Note: As with all failed bank losses, the loss estimates will be periodically adjusted as the FDIC, as receiver of the failed bank, sells assets, satisfies liabilities, and incurs receivership expenses.

Special Assessment

Rule for the Special Assessment was finalized in November 2023

- As of June 30, 2024, 146 IDIs belonging to 115 banking organizations were subject to the special assessment
  - No banking organizations with total assets under $5 billion are subject to the special assessment
  - Banking organizations with total assets over $50 billion will be responsible to pay more than 95 percent of the special assessment

Estimated Uninsured Deposits

- Following publication of the proposal, the FDIC observed that some IDIs were improperly reducing or not reporting estimated uninsured deposits as required by the Call Report instructions
  - In response, the FDIC conducted a review of the reporting methodology for estimated uninsured deposits and related items

Collection Period

- Collection of the special assessment began with the first quarterly assessment period of 2024, and will continue at a rate of 3.36 basis points through the initial eight-quarter collection period
- Because the estimated losses to be recovered will be periodically adjusted and the special assessment amount collected might change, the FDIC may be required to adjust the collection period

Request for Information on Deposits

- On August 6, 2024, the FDIC published to the Federal Register a Request for Information (RFI) on Deposits
- The FDIC seeks information on:
  - The characteristics that could affect the stability and franchise value of different types of deposits; and
  - Whether and to what extent certain types of deposits may behave differently from each other, particularly during periods of economic or financial stress.
- The request also seeks comment on whether more detailed or more frequent reporting on these characteristics or types of deposits could inform a number of policy objectives, including:
  - Enhancing offsite risk and liquidity monitoring;
  - Improving risk sensitivity in deposit insurance pricing;
  - Providing analysts and the general public with accurate and transparent data; and
  - Informing analysis of the benefits and costs associated with additional deposit insurance coverage for certain types of deposits.

Questions for Discussion

- What is the Committee most interested in learning from the RFI on Deposits? How might comments received on deposit data, deposit insurance or depositor behavior help the Committee better understand issues related to the resolution of systemically important financial companies?

- We just discussed some of the FDIC's policy responses to the 2023 bank failures, have we focused on the appropriate policy initiatives? Are there other policy initiatives we should be prioritizing?

Guest Speaker Stefan Walter

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Crisis Preparation and Optionality

Switzerland's TBTF and resolution regime and lessons learned

Stefan Walter, CEO FINMA

15 October 2024 - Systemic Resolution Advisory Committee (SRAC)

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Introduction
Where we stand after March 2023

Swiss TBTF Regime introduced in 2012

UBS | Credit Suisse

- Holding Structures
- Bankruptcy remote corporate services entities
- Separate Swiss entities to safeguard the Swiss systemic relevant functions
- Sufficient external and internal loss absorbing capacity

Additional Measures in 2023

- Emergency Public Liquidity Backstop

Two options ready in March 2023

Option 1	SPoE Bail-in according to FINMA resolution plan was ready
Option 2	Takeover of Credit Suisse by UBS

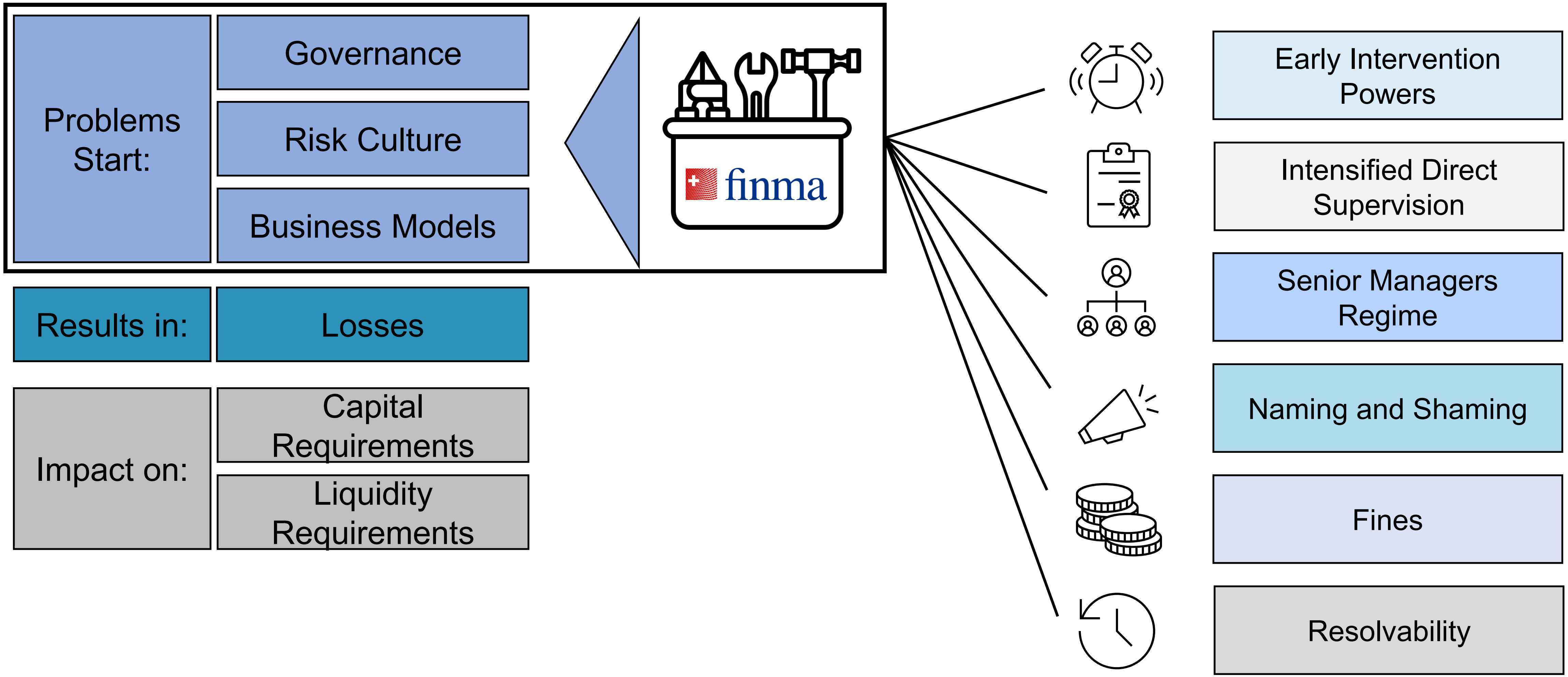
Market stability, legal certainty, value conservation

Reports on Failure of CS & TBTF Regime

Way Forward

Reducing the probability of a crisis

Strong, early intervention powers and incentivizing supervisory tools



Reducing the impact of a crisis
Strengthening Resilience of (G)-SIBs in Switzerland

Prudential Requirements
Improve financial resilience

- Hold more capital for subsidiaries
- Hold more capital for non-loss-absorbing assets
- Update liquidity requirements
- Update LCR parameters

Reflect March 2023

- Merger UBS with Credit Suisse
  - Systemic Add-Ons
- Technological and market developments
  - Accelerating Elements → Digitization & Social Media

Reduce impact of a problem

Contain wider systemic risk & moral hazard

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Reducing the impact of a crisis

Resolution Strategy: Additional Optionality

SPE Strategy GFC Type Scenario	**Market Exit** Loss in Confidence Scenario	**Sale of Group** Global Level Scenario
– SPoE Bail-in – Liquidity support – Restructuring of the business model – Changes in Governance	– SPoE Bail-in – Liquidity support – Disposals / sale / wind-down – Swiss Emergency Plan	– SPoE Bail-in – Liquidity support – Sale of the shares of UBS Group
Enough capital for fresh start	Sell viable parts / wind down rest	Sell bank to third party

Legal Certainty

- Powers to require preparation for resolvability
- Combine bail-in and transfer powers
- Clear and Transparent Rules

Liquidity Support

- Public Liquidity Backstop

Flexibility

- Bridge Bank vs. Clear Holding Company

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Conclusion

Working together, practicing together

SPE Strategy	Market Exit	Sale of Group

Cross Border Cooperation

- Bail-in Instruments
- Crisis Simulations
- Observer Roles CMGs
- Information Sharing
- Benchmarking
- FSB Working Groups

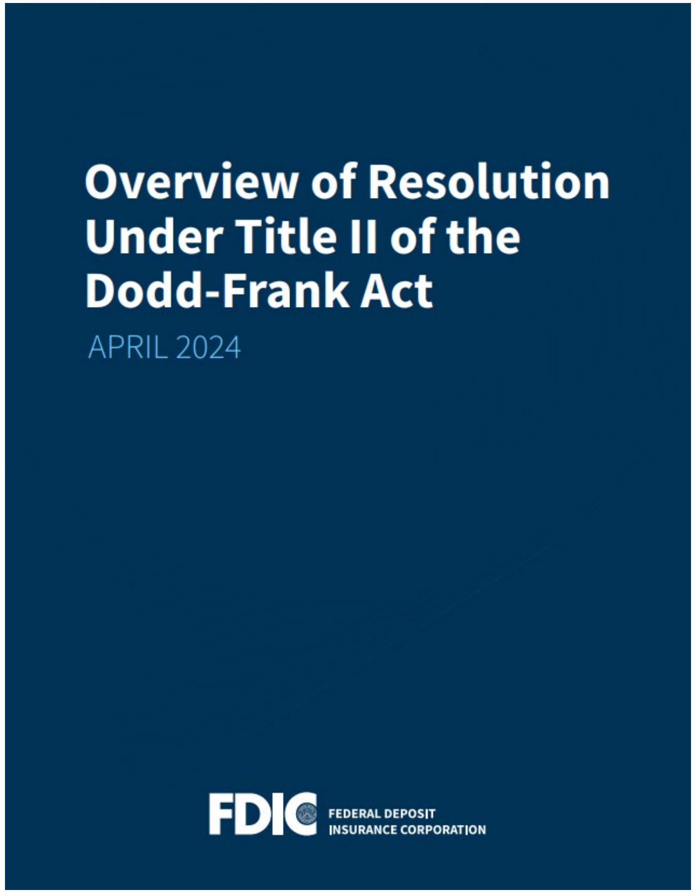
Improve effectiveness of G-SIB resolution &
Advance wider public understanding

THANK YOU!

Break

Session 2: Title II GSIB Resolution: Transparency and Communication

Improving Transparency on Title II Resolution



Goals of this paper:

- Provide stakeholders clear information on FDIC's planning for resolution under Title II, with a detailed example of a hypothetical U.S. GSIB resolution
- Set expectations for the Title II process to support financial stability
- Demonstrate FDIC preparedness to undertake a Title II resolution, if needed

Resolution Developments Mitigating Resolution Challenges

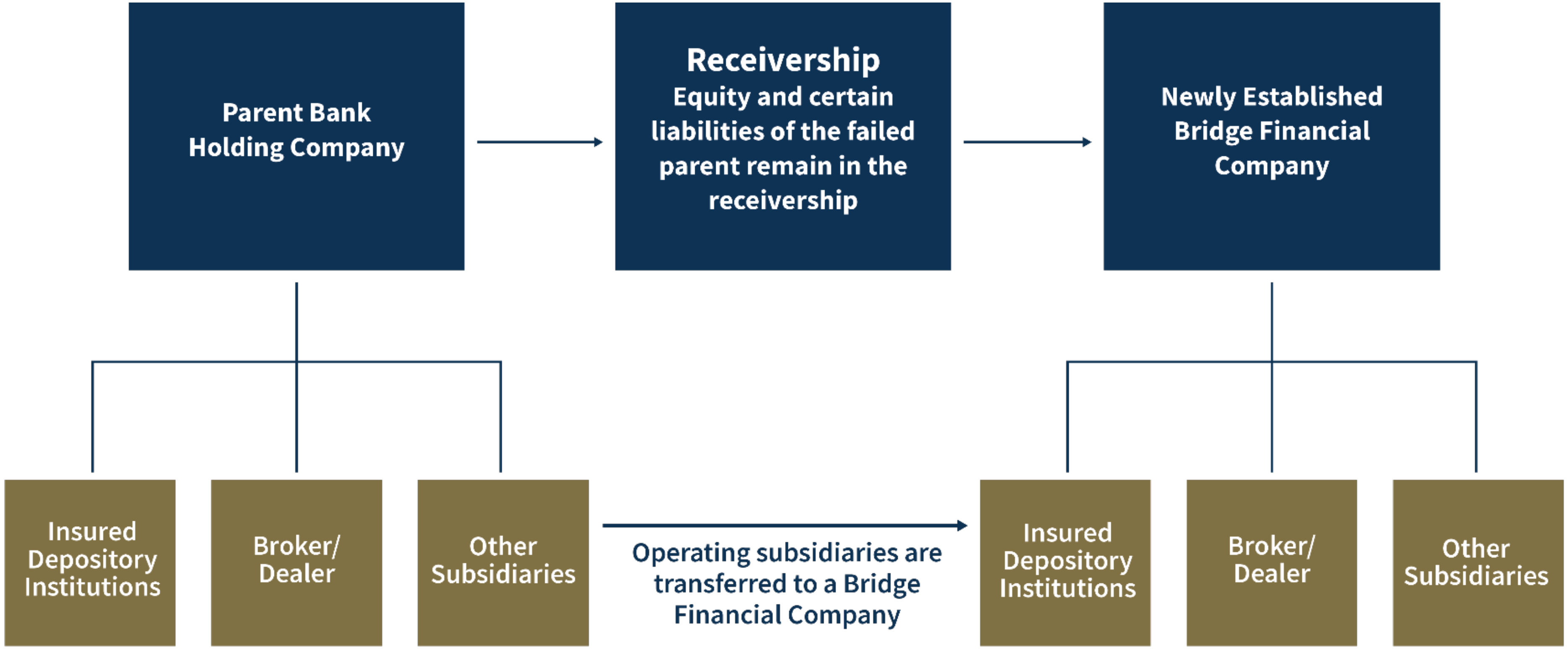
	Resolution Tools, Planning and Policy Developments						
Resolution Challenges	Title I Firms' Resolution Planning	Title II Orderly Liquidation Fund	Single Point of Entry Strategy	TLAC and capital and liquidity pre-positioning	Clean Bank Holding Company Rules	QFC Stays & ISDA Protocol	Cross-border Cooperation
Multiple competing insolvencies	✓	✓	✓	✓	✓		✓
Ring-fencing of foreign assets	✓	✓	✓	✓			✓
Disruption of operations and services	✓	✓	✓	✓	✓		✓
Adverse counterparty actions	✓	✓	✓	✓	✓	✓	✓
Insufficient financial resources		✓		✓			
Contagion to financial system	✓	✓	✓	✓	✓	✓	✓

Deciding Whether, When, and How to Use Title II Resolution Authority

Contingency Planning	Determining the Resolution Framework	Confirming the Resolution Strategy
• Firm hopes for recovery but plans for bankruptcy • Firm’s Title I governance triggers drive notification and firm decisions • FDIC heightened monitoring, contingency planning for Title II	• Bankruptcy is statutory first option • No ex-ante list of firms for Title II • Interagency “Three Keys” process with two recommenders and Treasury determination • Specific statutory factors to consider	• FDIC expects Single Point of Entry (SPOE) strategy will be most suitable for U.S. GSIB in wide array of scenarios • SPOE feasibility improved if firm has sufficient resources to recap subsidiaries

Confirming the Resolution Strategy: Single Point of Entry

FDIC expects that for a Title II resolution of a U.S. GSIB, an SPOE strategy will be most suitable in a wide array of potential scenarios



Operational Steps for a Title II Resolution:
Example of U.S. GSIB

1. Launching the Resolution

- FDIC stepping in as receiver
- Forming the bridge
- Appointing new officers and directors
- Establishing bridge oversight
- Commencing the claims process

2. Stabilizing Operations

- Capitalizing the bridge financial company
- Funding the bridge financial company
- Maintaining operational continuity
- Public facing communication

3. Exiting from Resolution

- Orderly wind-down and restructuring
- Terminating the bridge
- Settling claims and terminating the receivership

Communicating with Other Authorities

Firm-Specific Crisis Management Groups and Colleges of Authorities

On-Going Working Relationships with Other Authorities

- Bilateral and Trilateral Working Groups
- Work with Financial Stability Board and Resolution Steering Group Members
- Engagement with Additional Jurisdictions through Multiple Fora

GSIB Resolution Stakeholders

- A wide array of stakeholders will need to be reached upon entry into resolution
- Instilling confidence in customers and counterparties is essential for stabilizing the GSIB's operations

Public & Media

- General public
- Traditional and social media
- Analysts, rating agencies, public experts

Regulators & Policy Makers

- Policymakers, Congress
- Domestic authorities
- Foreign authorities

Customers & Counterparties

- HoldCo investors
- Retail customers, depositors
- Corporate banking clients
- Financial market utilities
- Trading counterparties

Firm Personnel & Service Providers

- Executive management and committees
- Firm personnel – all
- Service providers, critical vendors, contractors

Communications Planning and Process

Pre-Planning

- Title I comms plan review
- Developed Title II comms playbook
- Retained crisis comms advisor, develop template materials
- Exercises focused on comms
- Stakeholder outreach

Runway

- Tailor comms playbook, templates to scenario
- Engage comms team at the firm
- Prepare deployment across agencies, and with new management
- Coordinate with host authorities

Upon Entry

- Press conference and press release
- Provide information about financial condition; capital, liquidity actions
- Publish Financial Institution Letter, FAQs
- Deliver messaging through the firm
- Corresponding messages from hosts

Over-Arching Messages

U.S. Authorities

Immediate messages from “key-turning” authorities:

- **Rationale for using Title II**, and an explanation of how the failure occurred
- **Condition of the broader financial system**, and any stabilizing measures
- **The resolution process**, including an outline of the actions to be taken and general timeline

Specific messages from the FDIC:

- **Accountability** measures to ensure the parties responsible for the failure bear the costs
- **Stabilizing actions**, including conversion of TLAC and use of the Orderly Liquidation Fund (OLF)
- **Basic financial information** demonstrating condition of the institution
- **New management** that has been installed, and how the resolution will be overseen
- **The go-forward plan** for the institution, including how the cause of failure is being addressed

Foreign Authorities

- **Coordination with U.S. authorities**, and support for the SPOE resolution plan
- **Hosted entities remain open and operating** and are financially sound

Bridge Management

- **The ability to conduct business** across all ongoing business lines of the bridge
- **How the resolution plan will be fulfilled**, in coordination with the FDIC

Communications to Customers and Counterparties

Investors - HoldCo Shareholders and Creditors	• Disclosure of available **financial information** and details of the claims process • Engagement and input throughout the resolution process
Retail Customers and Corporate Banking Clients	• Refer to **FDIC published materials** and active use of **bank systems and personnel** • Be clear that bank **operations continue as usual**, that customers are “safe”
Financial Market Utilities	• **Direct outreach** to FMUs and correspondent banks, with firm and FDIC in partnership • Demonstrate the ability to **meet obligations** immediately (margin, pre-funding)
Trading Counterparties	• Demonstrate **strength of subsidiaries** and ability to meet financial obligations • Emphasize that **the same legal entity** is operating, and the application of **stays** • Push communications through the firm to the **trading desk level**, with clear instructions on the ability to trade and risk tolerance

Questions for Discussion

- Does the paper provide appropriate transparency or is more information needed for certain stakeholders? Should we consider other information channels to provide information in advance?

- What else can authorities do in advance to promote global confidence in the SPOE resolution process?

- At the time of resolution, to stabilize the operations of a GSIB and the financial system, what messages or communications actions need the most focus?

Lunch

Session 3: CCP Resolution

Central Counterparty (CCP) Resolution: Key Challenges

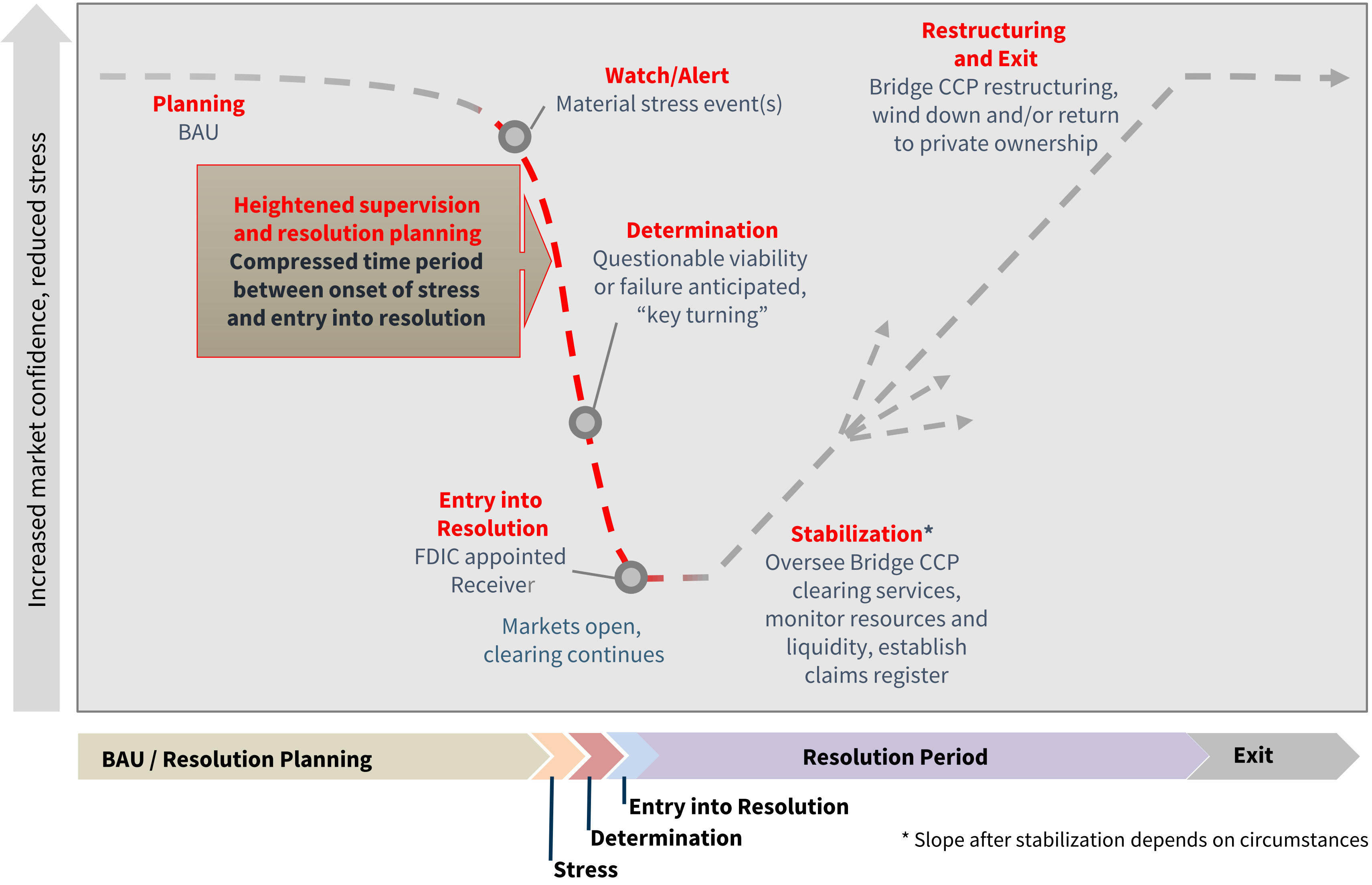
FDIC objective for CCP resolution under Title II

- Maintain the provision of critical clearing functions to avoid or mitigate the serious adverse effects on financial stability in the U.S. that could result from the failure of a CCP

CCP resolution under Title II presents challenges due to CCP dynamics

- CCPs provide critical services for market functionality
- Compressed timeframes
- Lack of resolution-specific resources

Illustrative CCP Stress Continuum



* Slope after stabilization depends on circumstances and strategy.

Key differences between GSIB and CCP resolution under Title II

For CCPs, the FDIC does not have:

- Title I authorities, including resolution plan requirements and ability to remove barriers to resolvability
- Backup supervisory authority, and thus direct visibility, into a CCP
- Clean Holding Company rule, and thus a clean point of entry
- Capital and liquidity triggers to support an orderly resolution
- Reserved liquidity and loss absorbing capacity to support an orderly resolution

Questions for Discussion

- Are there challenges not discussed here that the FDIC should be considering in planning for a CCP resolution?
- Do members have any guidance on how some of these challenges might be addressed?

A new international standard on resolution-specific resources for CCPs

The FSB standard contains two expectations:

1. That resolution authorities of systemically important CCPs have access to a set of financial resources and tools that are reserved for resolution and meet certain parameters

2. That home jurisdictions make transparent their approach to calibrating one or more of the resolution-specific resources and tools in the toolbox

A "toolbox approach" so that resolution authorities have ready access to a combination of resolution-specific resources and tools, in addition to any non-exhausted recovery resources and tools

Resources available in the toolbox

Jurisdictions are expected to adopt two or more of the below resources and tools

Resource or tool	Brief Description	UK	EU	U.S.
Bail-in bonds	Subordinated or unsecured debt to recapitalize the CCP and/or absorb losses in resolution			
Resolution funds	Dedicated, pre-funded resources			
Resolution-specific insurance	Contract with an agreement to provide funding to the resolution authority or the CCP			
Resolution-specific third-party contractual support	Contingent resources provided by a third party available to the resolution authority (or the CCP in resolution)			
Resolution cash calls	Right for the resolution authority to make one or more capped cash calls on the clearing participants once the CCP is placed in resolution	✓	✓	
Resolution-specific variation margin gains haircutting (VMGH)	Right for the resolution authority to delay, reduce, or cancel variation margin payments in resolution	✓	✓	
Equity write-down	Power to use existing CCP owners' equity to absorb losses in a first loss position	Limited	Limited	Limited

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Resolution resource considerations for U.S. CCPs

The FDIC has limited options for financial resources in a CCP resolution:

- The U.S. has not adopted resolution-specific resources consistent with the standard
  - Additional resolution-specific resources likely require regulatory or legislative action
- Recovery resources may be substantially exhausted prior to key turning
- Borrowing from the OLF is restricted to temporary liquidity
  - Amount available to borrow may be limited

Questions for Discussion

- Supporting orderly resolution requires resources and tools with certain characteristics (e.g., purpose and usability, timeliness, impact to financial stability, etc.); how should these characteristics be compared with the cost and incentive to clear implications associated with resource adoption?
    - Are there any characteristics that should be prioritized?
- What more could the FDIC do to ensure access to resources reserved for CCP resolution?

Closing Remarks

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End of Presentation

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