MEMORANDUM TO: The Board of Directors

FROM: Ricardo R. Delfin, Director
Division of Complex Institution Supervision & Resolution

SUBJECT: Publication of Proposed Guidance for §165(d) Resolution Plan Submissions of Certain Foreign-based Covered Companies

I. SUMMARY OF RECOMMENDATIONS:

This memorandum concerns the publication in the Federal Register for public comment of proposed guidance regarding resolution plans that are to be submitted pursuant to Section 165(d) of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Section 165(d)") and its implementing rule ("Section 165(d) Rule"),¹ by certain foreign banking organizations (collectively, the "Specified FBOs"). Staff of the Federal Deposit Insurance Corporation ("FDIC") developed the proposed guidance jointly with staff of the Board of Governors of the Federal Reserve System ("FRB" and, together with the FDIC, "Agencies"). While the proposed guidance in many respects is consistent with guidance previously issued to certain foreign banking organizations, the proposed guidance also reflects several recent developments: the Agencies' reviews of the resolution plans that were submitted by those certain foreign banking organizations in 2018 ("2018 Plans"); the 2019 amendments to the Section 165(d) Rule ("2019 Revisions");² and the issuance of updated

¹ Codified at 12 U.S.C. § 5365(d) and at 12 C.F.R. Part 381, respectively.
final guidance for the resolution plans to be submitted in July 2019 and thereafter by the eight largest, most complex U.S. banking organizations (“U.S. GSIBs”) in February 2019 (“2019 Domestic Guidance”). As discussed in more detail below, the proposed guidance also includes a scoping methodology for determining to which firms the proposed guidance would apply.

Staff recommend that the Board of Directors (“Board”) of the FDIC take the following actions:

A. Authorize publication of Guidance for §165(d) Resolution Plan Submissions of Certain Foreign-based Covered Companies (“Proposed Guidance”), together with the associated Preamble (“Preamble”) and both substantially in the form of Attachment 2, in the Federal Register with a request for public comment, for a comment period ending 60 days after publication on the Agencies’ websites following approval by both the Board and the FRB.

B. Authorize the General Counsel, or designee, and the Executive Secretary, or designee, to make technical, non-substantive, or conforming changes to the text of Attachment 2 to prepare it for publication.

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3 Guidance for the §165(d) Resolution Plan Submissions by Domestic Covered Companies applicable to the Eight Largest, Complex U.S. Banking Organizations, 84 Fed. Reg. 1438, 1449 (February 4, 2019).

4 The Preamble and Proposed Guidance will be made available to the public on the FDIC’s website shortly after approval by the Board and the FRB. FDIC staff understands that FRB staff is taking similar steps.
II. **BACKGROUND:**

A. **Key Authorities: Section 165(d) and the Section 165(d) Rule**

The requirement to submit a resolution plan pursuant to Section 165(d) and the Section 165(d) Rule applies to each "covered company," as defined in the Rule.\(^5\) The goal of the Section 165(d) resolution planning process is to help ensure that a covered company's failure under the U.S. Bankruptcy Code could occur without serious adverse effects on financial stability in the United States. Specifically, the resolution planning process requires covered companies to demonstrate that they have adequately assessed the challenges that their structures and business activities pose to resolution, and that they have taken action to address those issues. For a covered company that is incorporated or organized in a jurisdiction other than the United States, the resolution planning process focuses on the company's U.S. subsidiaries and operations. The Section 165(d) Rule provides that a foreign banking organization's resolution plan may not assume that the covered company takes resolution actions outside the United States that would eliminate the need for any of its U.S. subsidiaries to enter into resolution proceedings.\(^6\)

B. **2019 Revisions to Section 165(d) Rule**

On November 1, 2019, the Agencies published in the *Federal Register* amendments to the Section 165(d) Rule,\(^7\) the first revision of the Rule since its issuance in 2011. The 2019 Revisions addressed changes to the Dodd-Frank Wall Street Reform

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\(^5\) 12 C.F.R. § 381.2.

\(^6\) 12 C.F.R. § 381.4(h).

\(^7\) Resolution Plans Required, 84 Fed. Reg. 59,194 (November 1, 2019).
and Consumer Protection Act made by the Economic Growth, Regulatory Relief, and Consumer Protection Act, and improved certain aspects of the Rule based on the Agencies’ experience implementing it. Among other changes, the 2019 Revisions established three different resolution plan filing groups (biennial filers, triennial full filers, and triennial reduced filers). The firms that, at present, would be subject to the Proposed Guidance are expected to be triennial full filers.

C. Legacy FBOs’ Resolution Plan Submissions Through 2018 and Agencies’ Guidance and Feedback

Covered companies, including certain foreign banking organizations, first began submitting resolution plans in 2012. The Agencies facilitated the further development of the resolution plans through the joint issuance in 2013 of guidance addressing issues common across foreign banking organizations’ plans and subsequently of individual letters to firms in August 2014. The August 2014 individual letters to each of four large foreign banking organizations -- Barclays PLC, Credit Suisse Group AG, Deutsche Bank AG, and UBS AG (collectively, the “Legacy FBOs”) -- advised that the Agencies had jointly identified shortcomings in each firm’s 2013 plan. In March 2017, the Agencies

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9 All triennial full filers are required to submit targeted resolution plans on or before July 1, 2021; certain of them also must provide a submission in response to the agencies’ joint identification of shortcomings in the firms’ 2018 resolution plan submissions. See 12 CFR § 381.4(k)(1)(ii) and Resolution of the FDIC Board Nos. 085480, 085481 (Dec. 18, 2018).

10 Issuance of the Guidance for 2013 §165(d) Annual Resolution Plan Submissions by Foreign-Based Covered Companies that Submitted Initial Resolution Plans in 2012, was authorized by Resolution of the FDIC Board No. 081047 (April 11, 2013).

11 The FDIC Board determined that each of the firms’ 2013 plans was not credible or would not facilitate an orderly resolution. Resolution of the FDIC Board No. 082352 (August 5, 2014). The FRB did not make such a determination, instead concluding that each of the plans had shortcomings.
issued written guidance that was designed to assist just the Legacy FBOs in the
development of their 2018 Plans (the “2018 FBO Guidance”). 12 In September 2017, the
Agencies’ staffs jointly prepared and delivered written Frequently Asked Questions
(“FAQs”) concerning the 2018 Guidance, which were generally applicable to all of the
Legacy FBOs. 13

The 2018 FBO Guidance reflects the significant restructurings that foreign
banking organizations were undertaking to comply with the FRB’s Regulation YY, 14
which required each Legacy FBO, among others, to maintain a top-tier U.S. intermediate
holding company (“U.S. IHC”) for its U.S. non-branch operations. 15 The 2018 FBO
Guidance identified and discussed in detail eight topics, six of which were also identified
and discussed in guidance issued to the U.S. GSIBs to assist in development of their
resolution plans submitted in July 2017: (1) capital; (2) liquidity; (3) governance
mechanisms; (4) operational (which included payment, clearing, and settlement activities
(“PCS”)); (5) legal entity rationalization and separability; and (6) derivatives and trading
activities (“DER”). Treatment of these topics by the 2017 U.S. GSIB guidance and the
2018 FBO Guidance were similar, but differed as necessary to reflect the different
resolution challenges, resolution plan scopes, and potential threat to U.S. financial

12 Guidance for 2018 §165(d) Annual Resolution Plan Submissions By Foreign-based Covered Companies
that Submitted Resolution Plans in July 2015, available at
14 12 C.F.R. Part 252.
15 12 C.F.R. Parts 252.2(gg) and 252.153.
stability posed by the two groups of firms. The other two areas addressed only in the 2018 FBO Guidance were (7) branches and (8) group resolution plan.

D. Finalization of 2019 Domestic Guidance

In July 2018, the Agencies invited public comment on proposed revised resolution plan guidance for the U.S. GSIBs ("Proposed Domestic Guidance"). The Proposed Domestic Guidance was largely consistent with the guidance provided to the U.S. GSIBs for their 2017 plans, other than updated sections regarding PCS and DER.

The Agencies invited comment on all aspects of the Proposed Domestic Guidance, and received and reviewed six comment letters. The Agencies adopted certain of the recommendations offered by the public, notably: (1) several changes to the PCS and DER sections; (2) the consolidation of previously-issued, relevant guidance; and (3) limited other minor changes and clarifications. The 2019 Domestic Guidance was published in the Federal Register in February 2019.

III. DISCUSSION:

A. Overview of Proposed Guidance

The Proposed Guidance generally restates the 2018 FBO Guidance and: (1) proposes a new scoping methodology to determine to which foreign-based covered companies the Proposed Guidance would apply; (2) updates the sections regarding PCS and DER; (3) makes a limited and discrete set of other clarifications; and (4) adds a new section and an appendix representing consolidation of all previously-issued guidance that


17 Guidance for the § 165(d) Resolution Plan Submissions by Domestic Covered Companies applicable to the Eight Largest, Complex U.S. Banking Organizations, 84 Fed. Reg. 1438, 1449 (February 4, 2019).
remains applicable, including the FAQs. Accordingly, the Agencies expect that the FBOs that would be Specified FBOs under the proposal have already incorporated significant aspects of the Proposed Guidance into their resolution planning. The Proposed Guidance also is largely consistent with components of the 2019 Domestic Guidance, although the Proposed Guidance differs in certain respects, given the circumstances under which a foreign-based covered company’s resolution of its U.S. subsidiaries and operations is most likely to be relevant. Additionally, the Proposed Guidance updates the separability section to provide additional specificity on actionability, and to note that detail and analysis provided in a plan should be commensurate with each Specified FBO’s risk profile and scope of operations. Finally, the Proposed Guidance makes some minor clarifications in light of the 2019 Revisions.

If the Board approves staff’s recommendations, the Preamble will appear in the Federal Register notice with the Proposed Guidance, but will not be part of the final guidance. The Preamble sets out background on Section 165(d) and the Section 165(d) Rule, the objectives of the resolution planning process, recent developments, and the importance of international cooperation on resolution planning. The Preamble also discusses the Agencies’ intention to continue evaluating guidance regarding capital and liquidity. The Preamble then provides an overview of the Proposed Guidance

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18 The Preamble notes that the Agencies expect that any future actions in these areas, whether guidance or rules, would be adopted through notice and comment procedures, which would provide an opportunity for public input. The Preamble also notes that the Agencies further expect to collaborate in taking such actions in a manner consistent with the FRB’s Total Loss-Absorbing Capacity rule. See generally Total Loss-Absorbing Capacity, Long-Term Debt, and Clean Holding Company Requirements for Systemically Important U.S. Bank Holding Companies and Intermediate Holding Companies of Systemically Important Foreign Banking Organizations, 82 Fed. Reg. 8266 (January 24, 2017).
(including the proposed scoping methodology, and sections that are unchanged from the 2018 FBO Guidance), and explains the reasoning for the proposed changes.

B. **Scope of Applicability of Proposed Guidance**

The Proposed Guidance specifies a methodology for determining to which foreign banking organizations it will apply. The proposed methodology is intended to identify foreign banking organizations whose material financial distress or failure present the greatest potential to disrupt the U.S. financial stability. Specifically, the Proposed Guidance uses the method 2 calculation of the global systemically important bank surcharge framework ("method 2") for determining the applicability of the Proposed Guidance, with a threshold for application of a method 2 score of 250 or more for a foreign banking organization that is a triennial full filer. The proposed scoping methodology is intended to be clear, predictable, and based on publicly reported quantitative data. Large bank holding companies, including foreign banking organizations’ U.S. IHCs, already submit to the FRB periodic public reports on their method 2 scores. At present, employing the proposed methodology would result in three of the four Legacy FBOs being a Specified FBO: Barclays PLC, Credit Suisse Group AG, and Deutsche Bank AG (collectively, the "Current Specified FBOs").

The method 2 score assesses a financial institution’s asset size, interconnectedness, complexity (including over-the-counter derivatives trading), cross-jurisdictional activity, and reliance on short term wholesale funding ("STWF"). The Current Specified FBOs have had consistently high method 2 scores that persist both in comparison to U.S. GSIBs and other foreign banking organizations during the periods for which data is available. These comparably high method 2 scores have largely been driven
by a reliance on STWF. Staff believe that STWF provides a strong measure of risk to financial stability and therefore is appropriate to incorporate in the scoping analysis. The STWF factor indicates the potential for significant liquidity outflows and large-scale funding runs associated with STWF in times of stress. Such funding runs may complicate the ability of a foreign banking organization to undergo an orderly resolution in times of stress, generating both safety and soundness and financial stability risks.

The Preamble poses a series of questions regarding the proposed scoping methodology, including if the proposed scope of applicability of the Proposed Guidance is appropriate, and if the Agencies should adopt a different methodology.

C. Other Questions Posed in the Preamble

The Preamble invites public comment on all aspects of the Proposed Guidance, including whether the topics in the Proposed Guidance represent the key vulnerabilities of Specified FBOs in resolution, and if there are any components that should be added or removed. Additionally, the Preamble asks about consolidating all prior applicable guidance, including whether there are additional aspects that warrant inclusion, additional clarification, or modification.

The Preamble also poses questions about specific sections of the Proposed Guidance, namely those sections in which the Proposed Guidance would make changes from the 2018 FBO Guidance and other potential changes not proposed in the Proposed Guidance. For example, the Preamble notes that certain foreign banking organizations have developed contractually binding mechanisms to ensure that sufficient capital and liquidity are timely provided to material entity subsidiaries of their U.S. IHCs prior to the U.S. IHC commencing a bankruptcy case. These foreign banking organizations have
each developed either (1) a secured support agreement whereby the U.S. IHC’s obligation to provide pre-bankruptcy support to material entity subsidiaries is supported by the subsidiaries’ perfected security interests in the IHC’s assets, or (2) one or more unsecured equity purchase agreements with material entity subsidiaries under which the U.S. IHC agrees to purchase more equity in those subsidiaries. The Preamble notes that neither the Proposed Guidance nor the Section 165(d) Rule recommends a specific strategy to ensure that support is timely provided to material entity subsidiaries and to effectively mitigate against creditor challenges. Accordingly, the Preamble poses a series of questions about the two approaches, although the Proposed Guidance does not reflect any changes from the 2018 FBO Guidance.

D. Revised Sections on PCS, DER, and Separability

The Proposed Guidance proposes new guidance text in three topical areas: PCS, DER and Separability.

1. Revised Section on PCS Activities

The Preamble notes that the provision of PCS services by firms, financial market utilities ("FMUs"), and agent banks is an essential component of the U.S. financial system, and that maintaining the continuity of access to PCS services is important for the rapid and orderly resolution of a Specified FBO’s U.S. material entities, identified critical operations, and core business lines. The Proposed Guidance further clarifies the Agencies’ expectations regarding a Specified FBO’s capabilities to maintain continued access to PCS services through the firm’s resolution. The Agencies’ staff believe that the
Current Specified FBOs generally have the methodologies and capabilities in place to address the expectations articulated in the Proposed Guidance.

First, like the 2019 Domestic Guidance, the Proposed Guidance states that a Specified FBO should develop a framework that articulates its strategies for continued access to PCS services and that incorporates the identification of both clients that are key to the firm’s U.S. operations, and also FMUs and agent banks\(^\text{19}\) that are key to the firm’s U.S. material entities, identified critical operations, and core business lines. In applying the framework, the Proposed Guidance explicitly identifies the two roles that a firm may play in connection with PCS services -- user or provider -- and clarifies information needed relative to each role.\(^\text{20}\) Also, like the 2019 Domestic Guidance, under the Proposed Guidance, each Specified FBO should take into account both the firm’s direct relationships (e.g., the firm’s direct membership in an FMU, or its contractual relationship with an agent bank) and indirect relationships (e.g., the firm indirectly accessing PCS services through its relationship with another entity, including a U.S. or non-U.S. affiliate or branch).

Second, the Proposed Guidance provides that each Specified FBO is expected to provide a playbook for each key FMU and agent bank that includes the financial and

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\(^{19}\) Although the 2018 FBO Guidance does not expressly suggest the identification of key agent banks and the development of playbooks for each key agent bank, the Proposed Guidance expressly includes this expectation. Each of the Current Specified FBOs generally considered agent bank relationships in its 2018 Plan, and provided a playbook for at least one key agent bank.

\(^{20}\) The Proposed Guidance refers to a user of PCS services as a firm that accesses the services of an FMU directly through its own membership in that FMU or indirectly through the membership of another entity, including an affiliate, that provides PCS services on an agency basis. A firm is a provider of PCS services under the Proposed Guidance if it provides its clients with access to an FMU or agent bank directly through the firm’s membership in or relationship with that service provider, or indirectly through the firm’s relationship with another entity, including a U.S. and non-U.S. affiliate or branch, that provides the firm with PCS services on an agency basis. A firm also would be a provider if it delivers PCS services to a client through the firm’s own operations in the United States in a manner similar to an FMU.
operational detail that would support continued access to PCS services for the firm and key clients of its U.S. operations under its U.S. resolution strategy. The Proposed Guidance clarifies the Agencies’ expectations regarding the different information that should be included in a playbook based upon whether a firm is a user or provider of PCS services (or both) with respect to that key FMU or key agent bank.

The Preamble poses a number of questions regarding PCS activities, including whether the Agencies should consider additional clarifications regarding expectations for playbook content and communications with key clients.

2. Revised Section on DER

The Preamble notes that the size, scope, complexity, and potential for opacity of a Specified FBO’s U.S. derivatives and trading activities may present significant risk to the resolvability of the firm’s U.S. entities. Based on the Agencies’ review of the foreign banking organizations’ most recent resolution plan submissions, the Agencies have observed that they are increasingly booking U.S. derivatives and trading activities that originate from U.S. entities into non-U.S. affiliates, resulting in interconnections and interdependencies among and between the firms’ U.S. entities and non-U.S. affiliates. Uncertainty about a firm’s execution risk, loss allocation, and impact on their U.S. entities’ clients and counterparties could contribute to a loss of confidence in the firm’s

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21 The Proposed Guidance defines “U.S. derivatives and trading activities” as all derivatives and trading activities that are: (1) related to a firm’s identified critical operations or core business lines, including any such activities booked directly into a non-U.S. affiliate; (2) conducted on behalf of the firm, its clients, or counterparties that are originated from, booked into, traded through, or otherwise conducted (in whole or in material part) in a U.S. entity; or (3) both (1) and (2).

22 The Proposed Guidance defines “U.S. entities” as the firm’s U.S. IHC subsidiaries and material entity branches. “U.S. IHC subsidiaries” is, in turn, a defined term meaning “all U.S. non-branch material entities, other than the U.S. IHC.”
U.S. resolution strategy.

Accordingly, the Proposed Guidance would clarify the Agencies’ expectations regarding a Specified FBO’s capabilities to monitor and manage its U.S. derivatives and trading activities in the period leading up to and during execution of its U.S. resolution strategy without risk of a serious adverse effect on U.S. financial stability. As compared to the 2018 FBO Guidance, and consistent with the 2019 Domestic Guidance, the Proposed Guidance would eliminate the expectation that a Specified FBO’s resolution plan contain certain information, including separate passive and active wind-down scenarios analyses and rating agency playbooks.

The Proposed Guidance would also modify certain expectations to reflect better a Specified FBO’s structure and business activities. Notably, the scope of activities covered by certain subsections would be broadened from U.S. derivatives activities to also include trading activities. Staff recommend this change as a result of reviewing 2018 resolution plan submissions and observing that the booking, funding, and risk transfer arrangements underlying U.S. derivatives and trading activities create interconnections and interdependencies among and between a firm’s U.S. entities and their non-U.S. affiliates that, if disrupted, could affect materially the funding or operations of the U.S. entities that conduct the U.S. derivative and trading activities or their clients and counterparties. Accordingly, if a Specified FBO reports on only derivatives activities and not also trading activities, its resolution plan could present meaningful gaps with respect to risk to U.S. financial stability posed by the failure of the

23 The Proposed Guidance would also replace the Inter-Affiliate Risk Monitoring Controls subsection with a new U.S. Activities Monitoring subsection.
The DER section of the Proposed Guidance is organized into five subsections, which outline the following proposed expectations:

1. **Booking Practices.** A firm should have booking practices commensurate with the size, scope, and complexity of its U.S. derivatives and trading activities, including a framework that articulates the principles, rationales, and approach to implementing its booking practices, and the ability to identify, assess, and report on each U.S. entity that originates or otherwise conducts any significant aspect of the firm’s U.S. derivatives and trading activities.

2. **U.S. Activities Monitoring.** A firm should have capabilities to provide timely transparency into the management of its U.S. derivatives and trading activities, including such activities booked directly into a non-U.S. affiliate, in the period leading up to and during the execution of its U.S. resolution strategy.

3. **Prime Brokerage Customer Account Transfers.** A firm should be able to facilitate the orderly transfer of U.S. prime brokerage account balances to peer prime brokers.

4. **Portfolio Segmentation.** A firm should be able to produce analyses that reflect granular portfolio segmentation for all of its U.S. entities’ derivatives portfolios.

5. **Derivatives Stabilization and De-risking Strategy.** A firm should have a strategy to stabilize and de-risk any derivatives portfolio of any U.S. IHC subsidiary that continues to operate after the U.S. IHC files for bankruptcy.

The Preamble poses a number of questions regarding DER, including asking whether the Proposed Guidance is sufficiently clear in a number of areas. It also asks if the final guidance should include a set of criteria explaining the circumstances under

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24 The Proposed Guidance defines “U.S. prime brokerage account balances” as the account positions and balances of a client of the firm’s U.S. prime brokerage business, regardless of where those positions or balances are booked.
which the DER section should apply to a Specified FBO.

3. **Revised Section on Separability**

The Separability section of the Proposed Guidance derives largely from the Separability section included in the 2018 FBO Guidance, with a continuing focus on the identification of discrete U.S. operations that could be sold or transferred in resolution. The Proposed Guidance seeks to provide additional specificity by clarifying that a firm’s separability analysis should be actionable; firms should identify impediments to their mitigation strategies in advance; firms should consider the impact to U.S. financial stability when conducting their separability analysis; and the level of detail and analysis provided by the firm should be commensurate with the firm’s risk profile and scope of operations. In general, these same clarifications appear in the 2019 Domestic Guidance. The Proposed Guidance would also eliminate certain expectations consistent with the 2019 Domestic Guidance -- firms would no longer be expected to maintain an active due diligence data room, but rather demonstrate the capability to populate a data room in a timely manner.

**E. Publication for Public Comment**

As noted above, staff recommend publishing the Proposed Guidance and the Preamble in the *Federal Register* for solicitation of public comment prior to issuance of the final guidance. Doing so would be consistent with the Agencies’ prior statements, notably the preamble to the 2019 Revisions, which stated that the Agencies intend to make any future guidance concerning resolution planning available for public comment.
Staff recommend seeking public comment on the Proposed Guidance so that the Agencies can consider the views of interested parties, which will assist the Agencies in effectively implementing their joint Section 165(d) responsibilities. Making the Proposed Domestic Guidance available for notice and comment allowed the Agencies to gain valuable insight, which led to improvements and clarifications in the 2019 Domestic Guidance. Moreover, publication for comment increases transparency in government and, by doing so, promotes good governance and accountability in issuing guidance.

After receipt and analysis of comments, staff would recommend appropriate changes to the Proposed Guidance, and that any final guidance approved by the Board and the FRB be published in the Federal Register, distributed to applicable covered companies, and published on the FDIC’s website at www.fdic.gov.

Staff understand that FRB staff intends to make recommendations to the FRB consistent with those outlined above.

IV. CONCLUSION:

Staff recommend that the Board take the following actions:

A. Authorize publication of the Proposed Guidance and the Preamble, substantially in the form of Attachment 2, in the Federal Register with a request for public comment, for a comment period ending 60 days after publication on the Agencies’ websites following approval by both the Board and the FRB.

B. Authorize the General Counsel, or designee, and the Executive Secretary, or designee, to make technical, non-substantive, or conforming changes to the text of Attachment 2 to prepare it for publication.

CONCUR:

Nicholas J. Podsiadly
General Counsel

Date

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