Statement by Martin J. Gruenberg

Member, FDIC Board of Directors

Letter to Northern Trust Corporation Concerning Title I Resolution Plan Submission

March 29, 2019

The FDIC Board today is voting to approve feedback letters to 14 companies concerning Title I Resolution Plan submissions made in December 2017.

Among these companies, Northern Trust Corporation is of particular consequence because it is a custodial bank with global operations and substantial assets under custody. It is also the only one of these companies to have received a feedback letter on its previous Title I Resolution Plan submission in which shortcomings were identified. Since I intend to vote against approving the letter to Northern Trust Corporation, I would like to take this opportunity to explain the reason for my vote.

Northern Trust Corporation operates a subsidiary insured depository institution which represents 99% of the consolidated company's $123 billion in assets. The subsidiary is a custodial bank with approximately $7 trillion in assets under custody, making it the 6th largest global custodian. The subsidiary bank has substantial foreign operations, with its London branch being the most significant foreign location.

Since the subsidiary bank accounts for almost all the assets of the firm, Northern Trust proposes a resolution strategy based on assumptions that lead to the orderly failure of the subsidiary insured depository institution under the Federal Deposit Insurance Act through the utilization of an FDIC-organized bridge depository institution.

In March 2017, the Federal Reserve Board and the FDIC issued a joint letter to Northern Trust outlining three shortcomings in its resolution plan submitted in December 2015. The shortcomings identified issues of resolution liquidity, shared and outsourced services, and the transfer of uninsured and foreign deposits to a bridge bank.

In regard to the third shortcoming, the March 2017 letter identified the transfer of foreign deposits of Northern Trust's London branch to an FDIC-organized bridge depository institution as critical to the successful execution of its resolution strategy. The March 2017 letter stated, "The 2015 Plan does not provide sufficient support for Northern Trust Corporation's assertion that the transfer to an FDIC bridge bank of these [foreign] deposits…would be consistent with least-cost and other applicable requirements of an FDIC-receivership."

The proposed letter to Northern Trust before the FDIC Board today states, "Based upon their review of the 2017 Plan, the agencies have jointly decided that the 2017 Plan satisfactorily addressed the shortcomings. With respect to the shortcoming regarding the bridge bank, the 2017 Plan included an analysis demonstrating how the establishment of a bridge bank and the transfer to it of all the subsidiary insured depository institution's assets and obligations, including those to uninsured domestic depositors and to general creditors including foreign depositors, could be the least costly resolution alternative."

In my view, the 2017 Plan submitted by Northern Trust does not adequately address the shortcoming regarding the transfer of uninsured and foreign deposits to the bridge bank. I believe the resolution plan is based on the unrealistic assumption that the events precipitating the failure of the subsidiary bank do not deplete capital. This allows the Plan to make the further unrealistic assumption that the FDIC can establish a bridge bank that can absorb the losses associated with the uninsured deposits of the bank and all general creditors, including foreign deposits, and still meet the requirement of least cost to the FDIC's Deposit Insurance Fund under the Federal Deposit Insurance Act.

For this reason, I intend to vote against approving the proposed letter.