

July 2, 2020

Targeted Resolution Plan Requirements

Federal Reserve and FDIC Provide Information to U.S. G-SIBs Regarding 2021 Targeted Resolution Plans

SUMMARY

On July 1, 2020, the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation sent a letter¹ to the eight U.S. Global Systemically Important Banks² specifying the requirements for the targeted resolution plan that each U.S. G-SIB is required to submit on or before July 1, 2021 under section 165(d) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and the jointly issued Resolution Plan Rule.³ Under the Resolution Plan Rule, the Agencies, no less than 12 months before the date a targeted resolution plan is required to be submitted, “may jointly identify in writing resolution-related key areas of focus, questions, and issues that must also be addressed in the covered company’s targeted resolution plan.”⁴ Accordingly, the letter identifies the targeted information required to be included in each U.S. G-SIB’s 2021 targeted resolution plan,⁵ which is generally focused on the U.S. G-SIB’s response to events surrounding the coronavirus.⁶ The Agencies intend to use each U.S. G-SIB’s response to the stress caused by the coronavirus to inform their assessment of the U.S. G-SIB’s resolution-related capabilities and infrastructure.⁷

In the press release announcing the delivery of these letters, the Agencies also announced that they have “recently completed a review of ‘critical operations,’ which are operations at certain firms whose failure or discontinuance would threaten U.S. financial stability, and informed the firms of their findings.”⁸ The Agencies further announced that they plan to complete another such review by July 2022, which will include a further, broader evaluation of the framework used to identify critical operations.⁹

2021 TARGETED PLAN REQUIREMENTS

As described in our [October 24, 2019 Memorandum to Clients](#), the eight U.S. G-SIBs are required to submit resolution plans to the Agencies on a two-year cycle, alternating between full and targeted

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resolution plans.¹⁰ The 2021 targeted resolution plan will be the first targeted resolution plan submitted to the regulators since the Agencies adopted revisions to the Resolution Plan Rule last year. Consistent with the Resolution Plan Rule, each U.S. G-SIB's 2021 targeted resolution plan is required to include:¹¹

- The core elements of a full resolution plan;¹²
- Any targeted information jointly identified by the Agencies;
- A description of each material change experienced by the U.S. G-SIB since the filing of its previously submitted resolution plan (or affirmation that no such material change has occurred); and
- A description of changes to the U.S. G-SIB's previously submitted resolution plan resulting from any:
 - Change in law and regulation;
 - Guidance or feedback from the Agencies; or
 - Material change experienced by the U.S. G-SIB.

The targeted information request set forth in the letter “focuses on the U.S. G-SIB's actions in response to events surrounding the coronavirus.”¹³ The targeted information request specifically asks each U.S. G-SIB to discuss (1) “linkages between the [U.S. G-SIB's] coronavirus response and resolution-related capabilities through December 31, 2020,” and (2) “lessons learned, including whether such lessons have been or will be incorporated into the [U.S. G-SIB's] resolution planning infrastructure.”¹⁴

The letter requires the U.S. G-SIBs to address certain factors in this discussion, to the extent such factors are applicable.¹⁵ These factors include:

- **Trigger framework:** The utilization of the U.S. G-SIB's resolution trigger framework, including breaches of resolution-related triggers and actions taken as a result, as well as any adjustments or recalibrations that may have resulted from these actions.¹⁶
- **Forecasting capabilities:** The extent to which the U.S. G-SIB's resolution capital and liquidity capabilities were leveraged, including:¹⁷
 - How and why Resolution Capital Execution Need and Resolution Liquidity Execution Need calculation assumptions and processes, including any dynamic liquidity forecasting capabilities, diverged from business-as-usual practices;
 - Changes to Resolution Liquidity Adequacy and Positioning assumptions related to inter-affiliate flows and pre-positioning of liquidity resources between the U.S. G-SIB's parent entity and its material entities;
 - Considerations of the impact of market volatility on the accuracy of resolution forecasting capabilities; and
 - Operational challenges in producing accurate and timely capital and liquidity metrics during the coronavirus response.

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- **Reporting / escalation of information:** The exercise of governance procedures and internal and external reporting processes, including:¹⁸
 - Ad hoc information needs and how those needs were satisfied;
 - Operational challenges in producing accurate and timely information / reports and escalating information;
 - How and why reporting and escalation processes during the coronavirus response diverge from business-as-usual practices or resolution-related simulation / tabletop exercises; and
 - Changes made or planned to reporting or escalation capabilities.
- **Resolution planning infrastructure:** How the coronavirus response affected other capabilities supporting the continuation of critical operations in resolution, including shared services and/or outsourced services and access to financial market utilities.¹⁹

The letter also requires those U.S. G-SIBs with identified shortcomings in their 2019 resolution plans to “continue implementing the action plan submitted” to the Agencies on March 27, 2020 and to “notify the Agencies of any material divergences from the action plan, including any that have arisen from coronavirus-related events.”²⁰ The Agencies will review whether the shortcomings have been adequately addressed in connection with their review of the 2021 targeted resolution plan.²¹

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ENDNOTES

- 1 Federal Reserve and FDIC, Letter to the eight U.S. G-SIBs (June 29, 2020), *available at* <https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20200701a1.pdf> (hereinafter the “Agency Letter”).
- 2 The U.S. G-SIBs are Bank of America Corporation, The Bank of New York Mellon Corporation, Citigroup Inc., The Goldman Sachs Group, Inc., JPMorgan Chase & Co., Morgan Stanley, State Street Corporation and Wells Fargo & Company.
- 3 The Resolution Plan Rule is codified at 12 C.F.R. Part 243 (Federal Reserve) and 12 C.F.R. Part 381 (FDIC).
- 4 12 C.F.R. § 243.6(c).
- 5 See Agency Letter at 1.
- 6 *Id.* at 2.
- 7 *Id.*
- 8 Federal Reserve and FDIC, Joint Press Release, *Agencies provide largest firms with information for next resolution plans* (July 1, 2020), *available at* <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200701a.htm>.
- 9 *Id.*
- 10 See 12 C.F.R. § 243.4(a).
- 11 See 12 C.F.R. § 243.6(b). See also Agency Letter at 1-2 (setting forth the requirements for the 2021 targeted resolution plan).
- 12 Under the Resolution Plan Rule, the “core elements” mean the information required in a full resolution plan relating to capital, liquidity and the filer’s plan for executing any contemplated recapitalization, including items such as the strategic analysis, certain corporate governance items related to resolution planning, certain organization structure and related information, a description and analysis of certain capabilities of the filer’s management information systems, and a description of the interconnections and interdependencies among the filer and its material entities, critical operations and core business lines. See 12 C.F.R. § 243.2.
- 13 Agency Letter at 2.
- 14 *Id.*
- 15 *Id.* If the factors are not applicable, the U.S. G-SIB may so indicate, and no further response to that factor would be required.
- 16 *Id.*
- 17 *Id.* at 2-3.
- 18 *Id.* at 3.
- 19 *Id.* at 4.
- 20 *Id.* at 4. The U.S. G-SIBs with identified shortcomings in their 2019 resolution plans are Bank of America Corporation, The Bank of New York Mellon Corporation, Citigroup Inc., Morgan Stanley, State Street Corporation and Wells Fargo & Company. See Federal Reserve and FDIC, Joint Press Release, *Agencies find no deficiencies in resolution plans from the largest banks; find shortcomings for several firms* (December 17, 2019), *available at* <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191217a.htm>.
- 21 Agency Letter at 4.

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