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Resolution Plans Filed: A brief overview of June 2012 Living Will Filings

Nine covered companies filed their Dodd-Frank 165(d) plans on July 2, 2012. Five of the nine Covered Companies also filed Federal Depository Insurance Corporation (FDIC) specific plans. Filers included five U.S. and four foreign institutions. Under the final rules for both the Dodd-Frank Act (DFA) and Insured Depository Institutions (IDI) plans, filers were required to submit a public version of their Resolution Plan.[1] The public portions were published by the FDIC and Federal Reserve Board (FRB) on July 3, 2012. In addition to providing financial information including capital and funding sources, which are already available through other public filings (e.g., 10K and 10Q documents), Covered Companies also provided information on core business lines, material entities, participation in payment, clearing and settlement systems, and a high-level overview of their resolution strategies.

Covered Company	Core Business	Material Entities	Membership in Payment Clearing and Settlement Systems
Bank of America Corporation	5[2]	7[3]	14
Barclays Plc	4	6	18
Citigroup Inc.	12	17	15
Credit Suisse Group AG	11	16	11
Deutsche Bank AG	10	7	12
The Goldman Sachs Group, Inc.	4–5	22	19
JPMorgan Chase and Co.	30	25	18
Morgan Stanley	3	18	19
UBS Finanzholding AG	7	11	–

As shown in the chart above, Core Business lines are defined as those businesses that include operations, services, functions and support, which upon failure would result in material loss of revenue, profit or franchise value.

Material Entity is defined as a subsidiary or foreign office of the covered company that is significant to the core activities of the covered company. It is interesting to note the variation across firms in how they chose to disclose information regarding their core business lines. Amongst the core U.S. banks, Bank of America identified five main business segments and stated that certain activities of these segments would meet the definition of "core businesses" as defined by the Resolution rules; it did not however list the core businesses. By comparison, JP Morgan Chase identified 30 core business lines across six main business segments and Citigroup identified 12 core businesses across three main business segments.

Although critical operations form a core part of the overall Plan submission, firms were not required to submit details on their critical operations for the public section. Not surprisingly, none of the nine filers discussed within their public filing which parts of their businesses would be considered critical operations.

Each financial institution provided a snapshot of their balance sheet as of December 2011 and a high level overview of all liquidity and funding sources per material legal entity. Some institutions expanded upon their regulatory capital

[1] Public filings are available at http://www.fdic.gov/regulations/reform/resplans/index.html.

[2] Five business segments were identified. Certain of the activities of these segments were determined to meet the definition of a "core business" for the Resolution Plan.

[3] Material entities include but are not limited to the five entities discussed in the public filings.

adequacy and liquidity risk management frameworks as well. Descriptions of derivatives and hedging activities, which were also required, were straightforward and revealed general attributes and context but not much more. JP Morgan Chase and UBS did provide additional information in the form of notional exposure.

Following the financial and hedging sections was a segment documenting the financial market utilities (FMUs), which are the material payment, clearing and settlement memberships entered into by each financial institution. This section was largely the same across each of the public Plans, simply listing the material entities and their corresponding FMU memberships. As expected, the vast majority of the financial institutions had common FMU memberships.

The next few sections of the public Plan included a description of the applicable foreign operations, the material supervisory authorities, which varied by entity type (e.g. bank holding company, broker-dealer and/or IDI) and region, as well as a listing of all principal officers.

Firms were also required to describe their governance structures as they pertain to resolution planning. For the most part, each firm reported a cross-functional structure integrated with corporate strategy and risk. Although there were variations across the covered companies, the basic governance structures described included:

1. Planning/Executive Review Committee of senior officers including the Chief Financial Officer (CFO), Chief Risk Officer (CRO), Chief Operating Officer (COO), General Counsel, and the Head of corporate and regulatory affairs. This committee is primarily responsible for determining the core businesses, critical operations and material entities, identifying resolution strategies, and reviewing and approving the annual plan before submission to the board of directors.
2. Oversight/Steering Committee reports to the Executive Review Committee and consisted of a wide body of senior managers across a range of departments including legal, operations, treasury, and technology. The Steering Committee is responsible for setting the policies and procedures for resolution planning and acting as a liaison between the project management office and the senior executive committee.
3. Project Management Office (PMO): PMO reports to the Steering Committee and is responsible for the day-to-day execution of the Resolution Plan submission.

Each resolution plan required a detailed inventory and description of key management information systems (MIS), mapping of MIS to material entities, critical operations and business lines, key internal reports generated utilizing MIS, processes, procedures and gaps related to MIS. The public sections of each plan provided a very high-level statement of each firms' MIS capability. Not surprising, each firm has indicated that their MIS capabilities are not only well developed but could easily be harnessed for resolution purposes.

Most importantly, filers were required to discuss their Resolution Plan strategy. Generally speaking, this section of the Plan submission was brief and very high level (as expected). As discussed in the plans, only a limited number of resolution strategies were presented. Of primary importance were:

1. Sale or liquidation of assets including businesses or operations – to achieve an orderly wind down;
2. Recapitalization – a "bail-in" type approach – recasting debt including intercompany debt; and
3. Leveraging FDIC resolution powers (i.e., purchase and assumption or bridge bank).

With respect to possible acquirers, all filers had a similar inclination to identify hedge funds, insurance companies and of course other banks or broker dealers, as possible suitors.

In summary, the public portions of submitted Plans were very high level broadly addressing requried topics areas. The "interesting" details behind these plans are for the regulators eyes only and are protected by Freedom of Information Act exclusions. Next steps fall to the regulators who are required by the rules to review each Plan in greater detail and provide feed back within six months. The regulators feedback will serve not only to assist those financial institutions, who have already submitted Plans, with respect to Plan improvements, but may provide guideposts to those institutions who will need to file in 2013.

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