The Meeting of the Systemic Resolution Advisory Committee

of the

Federal Deposit Insurance Corporation

Held in the Board Room

Washington, D.C.

Open to Public Observation in Person and via Webcast

October 15, 2024 – 9:00 A.M.

The meeting of the Federal Deposit Insurance Corporation (FDIC or Corporation) Systemic Resolution Advisory Committee (Committee) was called to order by Martin J. Gruenberg, Chairman, FDIC Board of Directors.

Committee Members present in person at the meeting: Dr. Ben S. Bernanke, Distinguished Fellow in Residence with the Economic Studies Program, Brookings Institution and Former Chairman of the Board of Governors of the Federal Reserve System; Tim P. Clark, Distinguished Senior Banking Advisor, Better Markets and Former Deputy Director of Supervision and Regulation, Federal Reserve Board of Governors; H. Rodgin Cohen, Senior Chairman, Sullivan & Cromwell LLP; Sir Jon Cunliffe, Former Deputy Governor of Financial Stability for the Bank of England; Former UK Permanent Representative to the European Union, and Former International Economic Advisor to the Prime Minister; Robert D. Drain, Former U.S. Bankruptcy Judge, S.D.N.Y.; D. Wilson Ervin, Former Vice Chairman, Credit Suisse; Dr. Richard J. Herring, Co-Director, The Wharton Financial Institutions Center and Professor of Finance, The Wharton School, University of Pennsylvania; Frank La Salla, President, CEO and Director of the Depository Trust & Clearing Corporation; Timothy J. Mayopoulos, Former President of Blend and Former President and CEO of Fannie Mae; John S. Reed, Former Chairman and CEO of Citigroup and Former Chairman, the Massachusetts Institute of Technology (MIT) Corporation; and Meg E. Tahyar, Partner and Co-head of Financial Institutions, Davis Polk LLP.

Committee Members attending by video conference: Jay Clayton, Former Chairman, U.S. Securities and Exchange Commission (SEC); and Gary Cohn, Former Assistant to the President, Economic Policy and Director of the National Economic Council.

Committee Members absent from meeting: Shelia Bair, Former Chairman, FDIC; Shelley C. Chapman, Senior Counsel, Willkie Farr & Gallagher and Former U.S. Bankruptcy Judge, S.D.N.Y.; Elke Koenig, Former Chair of the Single Resolution Board (SRB) and Former President of the German Federal Financial Supervisory Authority (BaFin); Dr. Donald Kohn, Former Vice Chairman Board of Governors of the Federal Reserve System and Senior Fellow, Economic Studies Program, Brookings Institution; Sandie O'Connor, Former Chief Regulatory Affairs Officer, JPMorgan Chase & Co.; and Douglas L. Peterson, President and CEO, S&P Global.

Members of the Corporation's Board of Directors present at the meeting: Martin J. Gruenberg, Chairman; Travis Hill, Vice Chairman; Jonathan McKernan, Director; and Michael J. Hsu, Director, and Acting Comptroller of the Currency.

Corporation staff in attendance at the meeting: Molly J. Baier, Susan L. Baker, Veree Bampoe-Addo, Kent R. Bergey, Tawanta L. Brinson, Jereon M. Brown, Robert "Robb" C. Connors, Kymberly K. Copa, Terie L. Cotten, Laura C. Crawford, Angela Dean, Debra A. Decker, Ashley Eisenberg, Elizabeth (Betsy) Falloon, Andrew J. Felton, Joanne Fungaroli, Mark L. Handzlik, Bruce W. Hickey, Krista Hughes, Monique A. Hunter, Hina Hussain, Nicholas S. Kazmerski, Shawn Khani, David E. Kiddney, Rosilyn L. King, Cassandra T. Knighton, Alexander LePore, Jr., Robert A. Long, Patrick "Pat" M. Mitchell, Scherisse Mohammed, Arthur "Art" J. Murton, Jhon E. Ochoa Espitia, Laura D. Porfiris, Ariana L. Rambuyan, Alfred L. Seivold, Nirali R. Shah, James P. Sheesley, Richard P."Pen" Starke, Nathan C. Steinwald, Andrew B. Stirling, Ryan P. Tetrick, Mona L. Thomas, Nicholas Thottam, Jenny G. Traille, Quynh-Thi Tran, Akhbar N. Trajudeen, Celia Van Gorder, Ciara S. Whitaker, and Aaron W. Wishart.

Other guests in attendance: Stefan Walter, CEO, Swiss Financial Market Supervisory Authority (FINMA).

All materials presented or distributed at the Committee meeting are available on the Committee's webpage (www.fdic.gov/advisory-committees/systemic-resolution-advisory-committee-srac). These materials are also filed in the records of the Committee and incorporated by this reference into these minutes.

Welcome and Introduction

Chairman Gruenberg presided at the meeting. He offered welcoming remarks, including an overview of the meeting agenda. He also thanked all the members for serving on the Committee and for their contributions. The Chairman mentioned that they would hear from Stefan Walter, who was appointed by the Board of FINMA to serve as the Chief Executive Officer for the regulatory authority of Switzerland. The Chairman also recognized FDIC Board Members Director McKernan and Acting Comptroller Hsu, who were also in attendance.[1]

The Chairman then recognized Celia Van Gorder, Assistant General Counsel for the Resolution Planning and Policy Section in the Resolution and Receivership Branch of the Legal Division. Ms. Van Gorder made announcements concerning the FDIC's obligations under the Government and Sunshine Act and the Administrative Procedure Act. She then recognized Patrick Mitchell, Director, Division of Insurance and Research.

Session 1: The 2023 Bank Failures: Resolution Policy Responses

Mr. Mitchell introduced the panelists for the first session - Senior Resolution Readiness Advisor Betsy Falloon, Division of Complex Institution Supervision and Resolution (CISR); Deputy Director Andrew Felton, CISR; Acting Director Shawn Khani, Division of Resolution and Receivership (DRR); Associate Director Robb Connors, Division of Risk Management Supervision; and Assistant General Counsel Celia Van Gorder. Mr. Mitchell thanked the guest speaker, Stefan Walter, who would be providing remarks later in this session and turned to Ms. Falloon to begin the discussion.

Ms. Falloon provided an overview of the FDIC's final 360.10 rule that was published at the beginning of July. Specifically, she covered the submission requirements for banks with total assets over $100 billion. She also discussed certain lessons learned from the 2023 bank failures and how they were incorporated into the final rule.

Ms. Falloon then turned the presentation to Mr. Khani, who provided an overview of the submission requirements under the final rule for banks with total assets of $50-$100 billion, or Group B filers. He pointed out that the first informational filings under the final rule are due in July of 2025, and the

[1] Vice Chairman Travis Hill arrived after the Board Members were introduced.

FDIC, in preparation for that, is reaching out to firms, both above $100 billion and under $100 billion, to help them understand the requirements of the final rule.

Member Reed asked who in the banks are these meetings with. Mr. Khani responded that it depends on the sessions, and it could be anyone from the executives down to individuals who would be more engaged in the actual operations.

Member Bernanke then asked whether in addition to the asset limits, which he assumed are legislative limits, used for designation of the banks subject to the final rule, could there be additional criteria like structure types of assets or types of business that could be incorporated into designations.

Mr. Khani responded that as it stands, just the total assets of over $50 billion is the threshold. Ms. Van Gorder then added that for the final rule, there is no statutory threshold and that it is a question of regulatory matters.

Member Herring noted that one of the problems with the 2023 bank failures was the rapid rate of growth of these banks and that by the time the FDIC detected they surpassed the total asset threshold it was too late to have the necessary information ready. He asked whether the final rule included anything that would help the FDIC catch such cases more quickly.

Ms. Falloon responded that the final rule includes banks with $50-$100 billion in total assets and the FDIC is developing plans for outreach to any banks as they get closer to these thresholds and making sure the FDIC's groups are well coordinated.

Member Herring, while finding that reassuring, questioned whether having rate of growth as one of the criteria that flags a bank for closer scrutiny made more sense.

Member Tahyar stated that the rapid rate of growth is reviewed more upstream at the supervisory level, as looking at it in resolution planning is too late.

Chairman Gruenberg added that rapid growth and how it can have significant consequences for resolution was a big risk lesson the FDIC learned last year. He underscored the need for collaboration between the supervisors and the resolution planning teams to manage this risk.

Member Herring was encouraged by the FDIC's close coordination between the group that oversees banks with $50-$100 billion in assets and the group that oversees banks with more than $100 billion and stressed its critical importance.

Member Cunliffe pointed out that valuation is key to knowing how big the problem is with an institution and asked whether excluding Group B from including valuation content in their informational filings was due to its high cost for these banks.

Mr. Khani responded that valuation has a point-in-time component to it and that the FDIC should have the information it needs from the informational filings to do its own valuations.

The presentation was continued by Mr. Connors who gave an overview of the joint guidance with the Federal Reserve issued in July to help certain large regional bank holding companies and certain foreign banking organizations improve their Dodd-Frank Act Title I resolution plans.

Member Mayopoulos asked about the FDIC's approach in having retention plans for the executive team following the bank's failure given the wariness about rewarding people who may have contributed to the failure. He pointed out that despite the wariness, as the FDIC is thinking about running a bridge bank for any length of time, being able to keep those key executives in place is essential.

Ms. Falloon responded that this issue was touched on last year and that the FDIC has requirements for retention plans built into its resolution planning requirements, but when it comes to senior executive level there is a tension between accountability and retaining the people that are needed to successfully run the bank. She added that this is an ongoing effort that the FDIC is working on internally.

Member Mayopoulos suggested that maybe the FDIC needs to decide whether it is willing to make those awards and keep those executives in place, except for those executives who the FDIC has clearly concluded are accountable. He further noted that the FDIC should have some claw back arrangements built into the retention agreements that would allow money to be forfeited by the executives found accountable. He pointed out that trying to sort out these retention issues at the executive level during the crisis is almost impossible and could lead to a great deal of instability.

Member Clark returned to the valuation issue and stated that despite the FDIC's confidence in being able to do the valuation itself, valuation is ultimately the bank's job. He suggested that the FDIC should put some emphasis on whether the key people in the bank are actually capable of doing an appropriate valuation under a variety of potential scenarios.

Member Clark then asked how the guidance has been working since it came out. His initial concern was that the agencies should put things into rules rather than guidance since guidance is not enforceable, especially since in the last few years the agencies have downplayed the importance of guidance publicly.

Mr. Connors responded that the guidance is just meant to help provide insights, considerations, and tools that the firms might use to help demonstrate that they can in fact execute on their resolution plans. Otherwise, the threshold principle is still whether the bank's plan is credible or not.

Member Drain wanted to ensure that the FDIC is also focusing on the greatly increased cost of complicated Chapter 11 cases which will require real cash and that such budget is incorporated in the resolution planning.

Mr. Connors responded that while the FDIC has not captured every expense by name, this would be captured in the Resolution Capital Adequacy and Positioning (RCAP) and Resolution Capital Execution Need (RCEN) modeling.

Mr. Felton then briefly reviewed the notice of proposed rulemaking (NPR) on long-term debt requirement for regional banks. He emphasized that the FDIC and other agencies are still in the process of analyzing comments and that he could not discuss where the FDIC is going on the final rule for long-term debt but could briefly review the aspects of the NPR that received the most comments.

Member Cunliffe asked how the agencies capture the interest rate risk when sizing recapitalization if they do not have the going concern capital provision for interest rate risk similar to what the UK has under its second pillar. He then asked about sizing the recapitalization for smaller banks that do not have access to the capital markets. He then asked whether the FDIC has explored, with the SEC, the regulatory route of prohibiting sale of Total Loss Absorbing Capacity (TLAC) by sophisticated vs non-sophisticated investors, as opposed to by denomination. He pointed out that this could not be done in the UK and did not think, given the enormous political pressure, the U.S. regulators would either.

In response to the last question on what the FDIC may or may not have discussed with the SEC, Ms. Van Gorder stated that given the pending rulemaking, it might be challenging for the FDIC to talk about the other alternatives it may or may not have explored. Mr. Felton then responded to Member Cunliffe's first two questions on recapitalization.

Mr. Mitchell then talked about the history of the 2023 bank failures and the aftermath of those failures. He discussed the special assessment associated with the losses related to the coverage of uninsured depositors.

Member Clark asked whether the FDIC has learned anything from those failures that could be factored into its consideration of what makes a firm systemic and whether there is some restriction that does not allow the FDIC to take what it has learned and use it in that way.

Ms. Van Gorder responded that the FDIC's authority depends in part on the resolution regime. For Title I resolution planning, there are some very clear boundaries that were set by Congress and the FDIC has no discretion to operate around those boundaries. However, with respect to IDI resolution planning, the FDIC has more discretion. In the 360.10 final rule as compared to the prior version, there is more of a focus on systemic impact that the FDIC recognized as something important. Chairman Gruenberg added the FDIC always suspected institutions as relatively small as those from 2023 could pose systemic consequences and last year eliminated any doubt.

Mr. Mitchell then briefly discussed the special assessment which, he added, was finalized in November 2023 following review of over 300 comments. He added that the FDIC put out a request for information (RFI) in August that asked for information from the industry regarding deposits, in particular uninsured deposits.

Member Tahyar thought the RFI was excellent and was very interested to see the results of the RFI, adding that the RFI was a great example of collaboration with the banking sector. She pointed out that there is a distinction between uninsured deposits and municipal, county, and state collateralized deposits, which is something that many people did not pay attention to until 2023. She suggested that the FDIC should focus on this point.

Member Cunliffe noted that the 2023 bank failures were basically about business model risk and that some firms have much higher risk profiles because of the nature of their business model. He then asked what tools the FDIC has as a resolution authority when it notices the higher risk and whether the FDIC has the freedom to adjust liquidity regulation.

Mr. Connors responded that the firm's volatility or susceptibility to a significant change is expected to be built into the firm's liquidity planning as to how much the firm needs to set aside. The FDIC analyzes the firm's trigger system and decides whether it is reasonable. If not, then the FDIC would point out that concern to the firm.

Member Bernanke added that though it was natural for the FDIC to think about the banking system specifically, it should also be thinking about systemic stability. He suggested there should be some kind of parallel system similar to a money market fund that is protected maybe by collateral rather than by the FDIC, to allow companies to put large amounts of money for payroll purposes.

Member La Salla asked whether there have been any unintended consequences of the actions the FDIC has taken in response to the 2023 bank failures either taken by the institutions themselves or depositors that may have surprised the FDIC. He further asked if anything had changed in terms of business behavior.

Member Ervin added that the growth in reciprocal deposits was one of the things that surprised him. This is a mechanism by which you can reduce the amount of uninsured deposits you have if you are nervous about a bank, but it also expands the FDIC's deposit insurance in effect. He was curious if this was included in the RFI.

Mr. Mitchell responded that he did not know if reciprocal deposits were included in the RFI.

Mr. Connors added that one favorable thing that has come out of this is the firms recognizing that borrowing from the discount window is a viable option and thinking about the importance of having some mobility of collateral or even starting to put collateral at the discount window to strengthen their alternative funding sources.

The Chairman then introduced guest speaker, Stefan Walter, CEO of FINMA. The Chairman recognized Mr. Walter's various appointments and services and stated that he appreciated Mr. Walter's willingness to be present at the Committee meeting.

Mr. Walter then provided an update on the situation in Switzerland on both the resolvability and the supervisory lessons learned following Credit Suisse's failure and its takeover by UBS. He gave an overview of the reports on lessons learned prepared and released by FINMA and the Swiss Federal Counsel.

Member Cunliffe stated the importance of having a public sector backstop as well as communicating the resolution process in advance to the public.

Mr. Walter acknowledged the need for a Swiss legislation on a public liquidity backstop and also confirmed a topic of recent discussion has been development of a resolution book, similar to what the Bank of England and FDIC have recently published.

Member Ervin praised the reports released by the Swiss authorities. He then pointed out some discussion on legal certainty around if the Swiss authority had to go into the TLAC stack and were to do a full Single Point of Entry (SPoE) bail in and in effect convert the bond structure into equity, that there might have been some U.S. securities law issues. He then asked Mr. Walter whether the Swiss authority has been able to work through that or is that still a process that's underway.

Mr. Walter agreed with Member Ervin that cross-border certainty of bail in is one of the key topics. Converting debt to equity will trigger registration and disclosure requirements. How that can be done in an orderly process during the resolution weekend and whether there can be an exemption or not is still being worked on.

Member Cohen then stated that he thought the SEC should be able to reach a clear decision that no further registration or disclosure is required. He thought that was the clear legal conclusion in this situation. He continued by saying that every bondholder was on notice on what the possibility was and that several law firms gave opinions on this.

Member Herring had a follow up on Member Cohen's point, which he found to be a little troubling. He said that it did not appear that the SEC was part of the crisis intervention, and he wanted to know if any measures have been taken to ensure that the SEC is on board with all these activities. He asked Mr. Walter what changes have been made at the international level to anticipate these kinds of frictions before they become a real issue.

Mr. Walter responded that they are trying to ensure that all relevant players are part of the crisis management group (CMG) and who are the relevant parties for the newly merged UBS. He also said that they are doing everything they can to have as much certainty in place beforehand.

Member Tahyar then reemphasized the point Member Cohen made earlier which she noted he also made at last year's meeting of the Committee. She said that every single U.S. experienced capital markets lawyer was surprised by the SEC's interpretation. She thought it was important for Committee members not to think that SEC's interpretation was a binding law or a regulation but rather a position and therefore, it should be able to be solved.

Member Clayton agreed with members Cohen and Tahyar adding that this issue was fairly easy to resolve by guidance provided by the SEC. He also stated that going forward, no matter the type of securities, the capital markets are going to be part of any resolution and that these issues of securities distribution should be resolved now and not at the time of the crisis.

Mr. Tetrick then noted that this issue has received significant attention since Credit Suisse's failure. He added that there has been a great deal of discussion at the Financial Stability Board (FSB) on this topic and the SEC has been intensely engaged in those discussions. He also noted that this is an issue that arises for open bank bail-in and this issue is not observed in the U.S. bridge bank approach.

At the conclusion of this portion of the discussion, the Chairman called for a break and the meeting stood in recess from 11:00 a.m. to 11:13 a.m.

Session 2: Title II GSIB Resolution: Transparency and Communication

The proceedings resumed with the Chairman recognizing Art Murton, Deputy to the Chairman for Financial Stability and Director, CISR, to start the discussion for the second session.

Mr. Murton stated that the topics to be covered in this panel would be the Blue Book that the FDIC put out in the spring and to seek guidance or advice from the Committee members on how the FDIC can engage with market participants and other important counterparties, not only before resolution, but in the moment to be most effective.

Mr. Murton then introduced the panelists - Ryan Tetrick, Deputy Director, Joanne Fungaroli, Senior Advisor to the Director, Susan Baker, Senior Advisor, all of CISR, and Pen Starke, Deputy General Counsel, Legal Division.

Ms. Baker described the FDIC's Blue Book, i.e., the Overview of Resolution Under Title II of the Dodd-Frank Act with a focus on transparency.

Member Ervin noted the importance of the timing of communication to the markets as to whether all the subsidiaries are open.

Member Bernanke noted differences in expected outcomes between an idiosyncratic failure vis-à-vis multiple firms failing and limits on the amount of backstop liquidity. Mr. Tetrick responded that the backstop liquidity is keyed to the asset size of the institution and is quite large and explained the two calculations for it.

Mr. Starke noted that the available backstop liquidity is calculated for each institution, so the U.S. Treasury should be able to support multiple failures. Member Bernanke noted there would still be general equilibrium effects such as on prices. Ms. Baker pointed out the Orderly Liquidation Fund's (OLF) capacity regarding guarantees. Ms. Baker added the OLF has the capacity to provide guarantees. Mr. Tetrick agreed with Member Bernanke that multiple failures are more challenging to deal with than single ones. The purpose of the authority is to limit contagion, but in the event of a systemic effect, non-FDIC tools may need to be used.

Member Cunliffe suggested that the implementation of a plan of resolution of a Global Systemically Important Bank (GSIB) could get “messy” and confidence could be eroded if not explained in advance that it may not go according to plan. Mr. Walter reflected on the strategy to continue material subsidiaries and asked what could be done if core subsidiaries were not valuable and contributing to the value of the group.

Mr. Tetrick granted that resolutions would not be immaculate, and he noted that the FDIC required the GSIBs to give the FDIC a lot of options in the Title I plans and we will take the scenario we get and respond accordingly. He also noted that resolution starts after something has gone wrong and, simply bailing in TLAC would not be credible, something material would need to change at the GSIB to address the problem and restore confidence.

Ms. Fungaroli noted the importance of the FDIC’s cross-border cooperation and described maintaining communications with numerous domestic and cross-border authorities and stakeholders. She noted the FDIC’s work includes cooperation agreements and information sharing agreements among authorities, and firm-specific supervisory colleges, CMGs, and European resolution colleges for individual GSIBs as well as Central Counterparties (CCPs).

Member Reed asked if China was included in this cross-border work. Ms. Fungaroli noted the FDIC’s engagement with China through the FSB. China has several GSIBs, but their planning is at a different stage, and no U.S. authority is a member of a CMG chaired by a Chinese home authority.

Mr. Starke discussed the cooperation of the German regulatory authority BaFin with the FDIC in the case of SVB as illustrative of the benefits in a crisis of the ongoing FDIC communications with other authorities regarding resolution.

Mr. Tetrick discussed how communications would be made in an actual Title II resolution.

Member Reed asked about communicating to the board of directors. Mr. Tetrick noted the dissolution of the board in a Title II resolution and the search for a new board and CEO.

Member Bernanke noted there are other governmental actors such as the Federal Reserve and the U.S. Treasury to coordinate with regarding communications. Mr. Tetrick noted the ongoing engagement of the U.S. Treasury, the Federal Reserve, SEC and others in exercises around GSIB resolution including through memberships in CMGs.

Member Tahyar noted that the new board members would need to be credible to the market. She suggested that the legacy CEO, CFO, and CRO are not likely to be retained, but asked, what if the problem were a rogue trader or a problem in credit card operations, and some of the executive management team had nothing to do with those. She assumes the FDIC will be making judgments about keeping whomever possible to keep the institution running, while taking into account who was at the center of the problem.

Mr. Tetrick agreed there would be such judgment calls and that other than the CEO, it would not necessarily be the case that all the officers whom Member Tahyar mentioned would not be retained, it would depend on the situation.

Member Clayton raised the need to vet potential board members in advance and added there should not be a big reliance on the former Board members for continuity of information, rather the staff that remains. Mr. Tetrick responded that the FDIC is vetting potential board members as part of its executive search program and had a new board identified for SVB if it had been a longer bridge.

Member Drain noted that in the FDIC’s communications, focusing on the selection of management that’s brought in to solve the problem is key for confidence for customers, counterparties and Congress.

Member Cohn recommended taking out the modeling assumption that the failure would occur on a Friday night, because this may not always be possible, and the situation is different if the failure happens earlier in the business week.

Member Ervin noted the risk of leaks and the need for some preparations around the potential for a mid-week leak.

Mr. Tetrick acknowledged Member Ervin's concerns on the possibility of leaks. Mr. Tetrick noted that the authorities had similar concerns and are always calibrating on how wide the circle of trust is for planning purposes. He noted a mitigating philosophy is to have an appetite for false positives and conducting planning even when institutions are healthier, which could mitigate the concern a bit.

Member Cohen raised planning for communications involving the seven other GSIBs. Mr. Tetrick agreed that was important and may be an area considered for outreach.

Chairman Gruenberg emphasized Member Drain's point on new management, noting that the FDIC has a highly developed process for identifying CEO candidates. CEO selections for the two bridge banks in 2023 was an important decision, and while not needed, FDIC was ready with another credible individual for First Republic.

Member Mayopoulos noted that a GSIB failure could be preceded by market signals that could require earlier messaging to the markets than in a failure such as SVB's, which happened quickly. Mr. Tetrick agreed, noting the Blue Paper's chart showing the FDIC expects to be doing Title II planning at the same time the institution is initiating a recovery plan and planning for its bankruptcy plan, and the FDIC needs an appetite for false positives.

Director Hsu raised the importance of communications with the rating agencies, external auditors, and host authorities.

Member Cunliffe raised the importance for any communications about stabilizing actions to be jointly made by the U.S. authorities and the importance of communication on an early, final decision on whether to guarantee all deposits.

Member Herring noted the need for an expert to monitor social media for potential effects on retail customers. Mr. Tetrick agreed and added that a social media strategy includes reactive communications, e.g., combating rumors and misinformation, as well as proactive ones.

Member Mayopoulos added that thinking about social media influencers could be important too.

Member Tahyar pointed out that attention should be paid to dominant, non-financial market utility (FMU) third-party vendors, such as payment processors and major tech companies, and perhaps core processors, in addition to FMUs.

Member La Salla noted the need for communications with FMUs to be clear and particularly rapid when thinking about the domino effect.

Member Reed raised the possibility of a failure caused by a major data processing collapse so that there is less visibility into the customer accounts and positions. Mr. Tetrick noted the shared concerns there and the FDIC's work with other authorities on cyber incident response in different types of incidents and the fact that resolution tools do not directly address cyber incidents.

Director Hsu pointed out the lack of usual price signals to the market, such as CDS spreads and share prices, once a firm is in resolution, and asked if there was some other price signal that could give the markets confidence. Mr. Tetrick noted that TLAC bonds would still be trading off market, so their prices might be informative.

Member Cohen asked about a quick new debt market issuance to restore confidence and noted the importance of deposit ratings from ratings agencies.

Member Herring asked if there was still a concern about creditors seizing proceeds during the clearing process to improve their positions, noting that there had been the concern with Drexel Burnham and Lambert's solvent broker dealer in the Drexel bankruptcy, absent the Federal Reserve and Bank of England guarantees. Mr. Tetrick noted the improvements with Title I planning and the firms being in a better position to wind down GSIB trading operations than before.

Member Clark noted the importance for SPoE of having sufficient capital and resources in place and raised whether the firm's capital, liquidity and prepositioning requirements should be increased. Mr. Tetrick noted that the question of how prescriptive to be on resolution resources is an ongoing policy debate. He further noted that having a credible amount prepositioned does not mean Title I will always work, but Title II provides significant additional liquidity.

Member Cohn pointed out that in 2008 on the trading side for struggling GSIBs, all the profitable positions left overnight, leaving only losing positions and margin on the assumption of a cessation of the trading business, so that should be in the calculations. Mr. Tetrick noted for firms' wind-down plans that is part of what they need to calculate, positing that it comes down to capital and liquidity sufficient to allow positions to run off, and agreeing it is a challenging aspect.

Member La Salla pointed out the importance of communications with exchanges for taking the overflow from non-exchange trading firms that pull away quickly in GSIB stress.

The Chairman then adjourned the meeting for lunch at 12:43 p.m. The meeting resumed at 1:55 p.m.

Session 3: Central Counterparties (CCP) Resolution

The proceedings resumed with the Chairman again recognizing Art Murton to begin the discussion for the third session.

Mr. Murton noted that the FDIC is not in the same place with CCPs as it is with GSIB resolution. He explained certain financial companies are eligible for resolution under Title II of the Dodd-Frank Act, and U.S. GSIBs are subject to resolution planning requirements under Title I of that Act. The FDIC also has more experience dealing with banks than with CCPs, and more experience working with bank regulators than CCP regulators.

Mr. Murton then introduced the panelists – Jenny Traille, Senior Deputy Director, Laura Porfiris, Associate Director, Aaron Wishart, Assistant Director, all of CISR, and Pen Starke, Deputy General Counsel, Legal Division.

Mr. Wishart noted the FDIC would resolve a CCP using authorities under Title II. In resolution planning, the FDIC acknowledges differences between banks and CCPs. The FDIC's primary objective in a CCP resolution is the continuity of critical functions the CCP provides to markets. Unlike GSIBs, CCPs are not required to submit resolution plans under Title I of the Dodd-Frank Act. The primary regulators of the U.S. CCPs require recovery and wind down plans that FDIC heavily relies on.

Member Bernanke posed a question about potential scenarios for a CCP's failure, and Mr. Wishart and Mr. Starke explained circumstances that could result in a failure.

Member La Salla discussed aspects of his firm's operations, including its ability to call capital from member firms, and noted there is more market concentration for CCPs than GSIBs. In addition, the time for settlement has been reduced, which can reduce settlement risk. Concentration has increased because of the mandate to centrally clear more Treasury funds. CCPs have a simpler business model than GSIBs, moreover CCPs have a high amount of collateral. In a default, access to liquidity to keep markets functioning would be important, particularly because if a CCP fails, it will be immediate, it will not make it to a Friday

Mr. Wishart noted differences in business models of U.S. CCPs and foreign CCPs, which the FDIC considers when conducting firm-specific resolution planning. The Financial Stability Oversight Council has designated eight financial market utilities as systemic, of which five are CCPs, two are payment systems, and one is a central securities depository. The five U.S. entities are subject to regulation by the SEC and/or the Commodity Futures Trading Commission(CFTC). Member La Salla added the cash side of the market is regulated by the SEC and the derivatives and futures side by the CFTC.

Member Herring asked about the potential for simultaneous CCP failures. Mr. Wishart noted that if a CCP experienced a default loss that threatened failure, other CCPs might also experience difficulties at that time. Both the SEC and CFTC have supervisory stress tests.

Member Cunliffe discussed the manner in which a CCP might cease operations and potential systemic consequences. Potential losses are difficult to estimate, because of long-term derivatives and other potential holdings. Rather than focus on the size of the loss, he stated the key issues were who manages the situation and who uses the resources. He discussed prepositioned resources, and other available resources such as the margin of the defaulting party, the default fund, cash calls, and haircuts. Many of the largest CCP clients hold the liquidity utilized by the CCP and provide services to the CCP. If several of these large investment banks failed, they could not meet their own margin requirements and, moreover, the CCP might lose access to its liquidity.

Member La Salla noted some CCPs are user-owned and user-governed, so in the event of a CCP default some board members may have potential conflicts of interest.

Chairman Gruenberg noted the Dodd-Frank Act contains authority for the FDIC to manage the resolution of any financial company that may pose financial stability risk, but it does not contain resolution provisions specifically tailored to CCPs. The FDIC will continue to coordinate with the SEC and CFTC. The Federal Reserve would play an important role in avoiding systemic impacts. Some jurisdictions, including the UK, have established extensive institutional frameworks for CCP resolution.

Ms. Traille discussed an international standard promulgated by the FSB regarding CCP resolutions. Mr. Wishart noted that the standard seeks to ensure authorities have access to sufficient resources and tools.

Member Bernanke asked about regulators' ability to establish requirements for CCP members as a condition of participating in the CCP. Mr. Starke noted that not all CCPs are owned by their members; several are publicly traded corporations.

Mr. Wishart said clearing members with the largest exposures to CCPs are generally GSIBs.

Member Cohn noted that, other than GSIBs, CCPs' largest clients may be electronic market makers. He mentioned the potential impact of a trading error in a derivatives market.

Mr. Wishart described additional elements of the FSB's list of potential CCP resolution tools.

Member Ervin asked whether regulators have tools to require maintenance of sufficient initial margin so they need not be raised during a crisis. Mr. Wishart noted there has been a substantial effort internationally and domestically to guard against that issue.

Member La Salla discussed differences between default and non-default scenarios and stated that for default scenarios the key issue would be liquidity.

Member Cunliffe discussed aspects of operational and non-operational failures, including the point at which a resolution authority might choose to intervene after a default.

Closing Remarks

Following the presentations and all related discussion, Chairman Gruenberg thanked staff who worked on putting the meeting together.

The meeting was adjourned at 3:00 p.m.

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Debra A. Decker
Executive Secretary
and Committee Management Officer
Federal Deposit Insurance Corporation
FDIC Systemic Resolution Advisory
Committee

The Meeting of the Systemic Resolution Advisory Committee

of the

Federal Deposit Insurance Corporation

Held in the Board Room

Washington, D.C.

Open to Public Observation in Person and via Webcast

October 15, 2024 – 9:00 A.M.

Although I was not Chairman of the Systemic Resolution Advisory Committee at the time of the Committee Meeting on October 15, 2024, I certify that, to the best of my knowledge based upon the meeting transcript, the attached minutes are accurate and complete.

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Travis Hill
Acting Chairman
Board of Directors
Federal Deposit Insurance Corporation