FEDERAL DEPOSIT INSURANCE CORPORATION

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SYSTEMIC RESOLUTION ADVISORY COMMITTEE

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MEETING

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TUESDAY,
OCTOBER 15, 2024

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The Advisory Committee convened at 9:00 a.m. in the Federal Deposit Insurance Corporation Board Room at 550 17th Street NW, Washington, D.C., Martin J. Gruenberg, Chairman, presiding.

PRESENT:
BEN S. BERNANKE, Distinguished Fellow in Residence with the Economic Studies Program at the Brookings Institution and Former Chairman of the Board of Governors of the Federal Reserve System
TIM CLARK, Distinguished Senior Banking Advisor, Better Markets and Former Deputy Director of Supervision and Regulation, Federal Reserve Board of Governors
JAY CLAYTON, Former Chairman, U.S. Securities and Exchange Commission (SEC)
H. RODGIN COHEN, Senior Chairman, Sullivan & Cromwell LLP
GARY COHN, Former Assistant to the President, Economic Policy and Director of the National Economic Council
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 DRAIN, Former United States Bankruptcy Judge,
Southern District of New York
D. WILSON ERVIN, Former Vice Chairman, Credit Suisse
RICHARD 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 (DTCC)
TIM MAYOPOULOS, Former President of Blend and Former President and CEO of Fannie Mae
JOHN REED, Former Chairman and CEO of Citigroup and Former Chairman, the Massachusetts Institute of Technology (MIT) Corporation
MEG TAHYAR, Partner and Co-head of Financial Institutions, Davis Polk LLP

ALSO PRESENT:
MARTIN J. GRUENBERG, Chairman
TRAVIS HILL, Vice Chairman
JONATHAN MCKERNAN, Director, Federal Deposit Insurance Corporation
MICHAEL J. HSU, Acting Comptroller of the Currency
STEFAN WALTER, CEO, The Swiss Financial Market Supervisory Authority (FINMA)
SUSAN BAKER, Senior Advisor, Division of Complex Institution
Supervision and Resolution (CISR)
ROBERT CONNORS, Associate Director, Division of Risk Management Supervision (RMS)
ELIZABETH FALLOON, Senior Advisor, CISR
ANDREW FELTON, Deputy Director, Systemic Risk Branch, CISR
JOANNE FUNGAROLI, Senior Advisor to the Director, International Policy, CISR
BRUCE HICKEY, Senior Counsel, Legal Division

SHAWN KHANI, Acting Director, Division of Resolutions & Receiverships (DRR)
PATRICK MITCHELL, Director, Division of Insurance and Research (DIR)
ARTHUR J. MURTON, Deputy to the Chairman for Financial Stability & Director, CISR
LAURA PORFIRIS, Associate Director, Strategic Planning, CISR
RICHARD P. STARKE, Deputy General Counsel, Legal Division
RYAN TETRICK, Deputy Director, Resolution Readiness Branch, CISR
JENNY TRAILLE, Senior Deputy Director, CISR
CELIA VAN GORDER, Assistant General Counsel, Complex Financial Institutions Section, , Legal Division
AARON WISHART, Chief, Policy Analysis, CISR

C-O-N-T-E-N-T-S

P-R-O-C-E-E-D-I-N-G-S

9:01 a.m.

CHAIRMAN GRUENBERG: Well, good morning, everybody. Let me welcome you to this meeting of the FDIC's Systemic Resolution Advisory Committee. I confess there's probably no meeting all year that I look forward to quite as much as this one. The engagement on this set of issues with you all is one that I think has been particularly valuable to the FDIC, and if I may say a particular source of interest and satisfaction to me personally. So thank you. Thank you all for your willingness to serve and for your contributions.

I think we have a terrific agenda laid out for you today. At last year's meeting of this committee not surprisingly we focused on the regional bank failures that occurred in spring of last year. You all remember that?

(Laughter.)

CHAIRMAN GRUENBERG: It's remarkable

how many people don't. But we have not forgotten. And while we're going to spend probably the bulk of our time this morning focused on a GSIB resolution in light of last year's discussion, we did want to come back to close the loop with you all in terms of some of the lessons we've tried to apply from that experience last year.

And I would note that in addition to the failure of the three U.S. regional banks, we of course had the Credit Suisse episode last year. And we thought we'd have no better authority at the moment to comment on that, as well as the outlook going forward, as my friend and colleague Stefan Walter, who earlier this year was appointed by the Board of FINMA, the Swiss regulatory agency, to serve as the chief executive officer for the regulatory authority of Switzerland.

And of course Credit Suisse was the first GSIB to fail, period, in a way, but certainly the first one to fail since the 2008

crisis. And for better or worse I think we have a lot of lessons to learn, so very much look forward to Stefan's comments. I'll introduce him when we get to his place on the agenda.

Following that discussion, we're going to turn to a paper that the FDIC released last year on how the FDIC would undertake the resolution of a U.S. global systemically important bank. This was our effort. I have to confess Jon Cunliffe is here. The UK had its Blue Book.

PARTICIPANT: Purple.

CHAIRMAN GRUENBERG: Purple Book. Sorry. I get the colors confused. The UK had its Purple Book. So the FDIC now has its Blue Book. And that book is really designed to lay out, in more depth and detail, including operationally, how in the United States we would undertake the resolution of a GSIB. So we will have a pretty detailed presentation on that paper this morning and very much would welcome your

feedback on that.

And then finally, this afternoon after lunch we'll turn to the area of a systemic resolution that I frankly think from a U.S. perspective we've perhaps made the least progress on since the 2008 crisis. And that's the resolution of central clearing counterparties.

You know CCPs were systemic before the 2008 crisis and, as a result of one of the reforms in the aftermath of the crisis, mandating central clearing of standardized derivatives, we took systemically important institutions and, if anything, made them even more systemically consequential, which presents challenges of supervision and certainly challenges of resolution.

And I think we are particularly challenged in the United States. I think we made a bit of progress last year internationally in terms of the Financial Stability Board adopting a new strengthened international standard on

dedicated resources in resolution for CCPs, which I think was a constructive step. But there's really a lot to talk about there, both in the U.S. context as well as internationally.

So we've got a full agenda today, I think of interesting issues, and very much look forward to your feedback.

I guess I should acknowledge that a former member of this committee, Simon Johnson, was recently honored, so I'll declare him a distinguished alumnus.

(Laughter.)

CHAIRMAN GRUENBERG: And he was a valued member. As I said in a note to Simon, he always kept us honest, which we were particularly appreciative of. We've got our own Nobel Prize winner to my left.

(Laughter.)

CHAIRMAN GRUENBERG: So we always want at least one on our committee at any given time.

(Laughter.)

CHAIRMAN GRUENBERG: But in any event, let me note that I'm joined by two of our board members: Director McKernan and Comptroller Hsu, if either of them have any comments they would like to offer.

If not, let me turn the program over to Celia Van Gorder from our Legal Division.

Celia?

MS. VAN GORDER: Thank you, Chairman Gruenberg.

Good morning, everyone. Before we get started because this is an official meeting we have to make two extremely important official announcements concerning the FDIC's obligations under the Government and Sunshine Act and the Administrative Procedure Act.

Some members of the FDIC Board of Directors are in attendance today. The Government and Sunshine Act imposes notice and access requirements whenever a quorum of the board meets to conduct or determine agency

business. Today's meeting is not held for such purposes and does not constitute a meeting under the Act. The board members present will only engage in general or preliminary discussions that do not relate to specific proposals for action pending before the FDIC. Any specific issues for official board resolution remain open for full consideration by the board following the conclusion of the meeting.

Turning to the second announcement, for purposes of the Administrative Procedures Act the FDIC currently has pending a number of Notices of Proposed Rulemaking regarding various topics that may arise during today's advisory committee meeting. The FDIC is in the process of reviewing comments received in connection with the notices and will consider all comments to the extent practicable before the board finalizes any of the proposals.

Staff will give presentations today on some of the proposals based on publicly available

information. Staff is not able to indicate the direction the FDIC or any of the other agencies involved in the Notices of Proposed Rulemaking are likely to take with respect to finalizing any of the proposals.

In accordance with FDIC practice, if substantive comments are made on any Request for Information or Notice of Proposed Rulemaking, the FDIC will publish in the public comment file a summary of this meeting. The summary will generally include a list of participants and a high-level summary of the discussion.

If there are any questions on either of these announcements, we do have staff present who would be happy to answer.

And now I'm going to turn things over to Director Pat Mitchell to start off the substantive program.

MR. MITCHELL: Good morning, everyone, and thank you for joining us today. For our first session of the day, we plan to discuss some of

the domestic policy initiatives the FDIC has been working on since our last SRAC meeting.

I'm joined at the table today by our panelists for the first session: Senior Resolution Readiness Advisor Betsy Falloon, Acting Director Shawn Khani, Associate Director Robb Connors, Deputy Director Andrew Felton, and Assistant General Counsel Celia Van Gorder.

I also wanted to thank our guest speaker Stefan Walter for being here today. We'll be hearing from him later in the session and I look forward to his remarks.

I will now turn it over to Betsy to kick us off today with the first domestic policy initiative we would like to discuss.

Betsy?

MS. FALLOON: Good morning, everyone. I'm happy to be in the lead-off position with some progress to report on our resolution policy initiatives. At last year's SRAC meeting we provided you with an overview of a proposal that

the FDIC had published in September of 2023 to revise our 2012 rule on IDI resolution planning. We were pleased with the encouragement we received from you to continue the work and we're happy to provide an update today.

The importance of firm-specific resolution planning for large banks was underscored last year. The larger the bank, the more uncertain the prospect of achieving a closing weekend sale. In addition, in a liquidity failure, which history confirms that this may occur with large banks, we may face a very short runway.

One very clear lesson learned is that robust resolution submissions in hand prior to the failures would have been helpful. When the three large banks failed last spring, due to a moratorium on filing requirements, we had scant information and resolution plans submitted by the bank. One bank failed before its first plan was due. For one bank we had only an old plan

submitted when the bank was much smaller and much less complex. And the third bank had filed its plan shortly before failure. While the content of that plan was reduced, there were elements that proved very useful, particularly in the area of organizational structure and cross-border activities.

The lessons learned from those failures informed us as to what information and capabilities were most useful informed our final rule. Those experiences also confirmed that while banks between $50 and $100 billion in total assets may be somewhat less complex, they are big, complex, and idiosyncratic in ways that require advanced firm-specific planning supported by resolution focused information.

Following consideration of all comments the new resolution plan final rule was approved by our board last June and published on July 9th.

The final rule -- are we having

slides? I wasn't paying attention.

(Laughter.)

MS. FALLOON: Well, I'll continue. The final rule applies to banks with at least $50 billion in total assets with tiered requirements -- for those of you with slides in your books, I think I'm on slide 3?

PARTICIPANT: Five.

MS. FALLOON: The final rule applies to banks with at least $50 billion in total assets with tiered requirements for banks under $100 billion in total assets. These largest banks, those with at least $100 billion in total assets, will submit a comprehensive resolution plan which much include a full resolution strategy. Recognizing that banks under $100 billion in assets also present real resolution challenges, the rule requires a more limited, but very useful, informational filing from banks with at least $50 billion in total assets.

The final rule also made adjustments

to the timing of plan submissions as compared to the proposal. The final rule provides for a three-year cycle for most banks. This allows time for a comprehensive plan review and timely feedback to the filers. This cadence allows for expanded time for engagement and capabilities testing, which are important to our firm-specific planning.

Interim supplements filed in the off years will update key metrics and highlight material changes. Working with the firms as plans are prepared and during engagement together with useful and timely feedback will assure that progress and planning continues throughout the process.

As subsidiaries of the largest and most systemic and interconnected U.S. banking organizations, IDI affiliates of U.S. GSIBs will file every two years which coordinates with the biennial Title I filing requirements. We believe that a cadence in which Title I plans or the IDI

plans are submitted in alternating years for these institutions may facilitate useful ongoing resolution planning activities in a manner that works well for the firms and for the FDIC.

My slides aren't numbered like your slides, I think, but moving onto the next slide. Focusing now on the expectations for the resolution plans required for the largest banks with at least $100 billion in total assets, the plan must include an end-to-end strategy that is based on a reasonable scenario and is appropriate to the characteristics of the particular bank.

While the firms are free to choose a strategy that is suitable for their institution, the rule provides certain expectations with respect to the strategy. While not the only permitted option, the default identified strategy identified in the rule would include the formation and stabilization of a bridge bank. This is because the use of a bridge, where an available option, gives the greatest

functionality and is therefore very helpful to the FDIC. The bank would identify the preferred strategy for exiting the bridge.

Overall, the information and capabilities required in all resolution submissions are important to give the FDIC the ability to plan for a range of scenarios and different resolution options including a prompt sale of the franchise. For the largest banks that includes valuation capabilities that will be helpful for us developing useful analysis of various options to determine which may be least costly to the Deposit Insurance Fund in an actual resolution scenario.

An important element of the rule is enhanced expectations for horizontal capabilities testing as well as firm-specific engagement. The capabilities testing allows us not only to read a description of capabilities, but to see how effective they may be in practice.

One example of this might be a

capabilities test to evaluate the ability to timely stand up a due diligence room or a virtual data room with information sufficient to make an informed bid; however, I should point out that we're still evaluating our approach to capabilities testing for the 2025 plans that, we're looking forward to receiving, and have identified a range of worthwhile options to consider.

Now I'd like to hand it over to my colleague Shawn Khani, who leads resolution efforts for all the banks under $100 billion in total assets.

MR. KHANI: Thanks, Betsy. I think we're maybe slide 7 now. I'm not sure. Oh, okay.

So Betsy just covered basically the requirements for $100 billion and over. For the $50 to $100 billion, which is a Group B filing, as we stated it's information filing only. And that essentially means that the key components that are not there are really anything strategy

related or valuation related, is not required. Beyond that, a lot of the components are still very critical in order for us to have the information necessary to have an orderly resolution, and a more effective resolution for that matter, including the ability to operationalize the failure activities.

And some of the components that are included in the required - this portion of the required rule is really what we need to address: the people, systems, and process necessary to execute the mission. People, meaning like the key personnel. -That includes potential retention packages or retention strategies. Who do you need to retain, what are the systems, how do they fund themselves, and all of these sort of factors that play into the early going of the resolution?

And that can effectively allow us to be more - to maximize recovery. So if you think about maximizing recovery, you don't want to

stumble out of the blocks. And this would be a key component -of - key components of this sort of information that would really help us dramatically, especially in a rapid resolution environment. So- for the Group B filings that's part of the key components that are mentioned on that slide.

And then just looking forward, on the next slide, as far as what we're doing right now, these filings, as Betsy mentioned, are due in July of 2025 and later. And what we're doing is doing outreach efforts. So for the $100 billion and over we're meeting with groups of firms and having sessions where we go through Q&A, walking them through the guidance so that way they're successful in their submissions. For firms that are under $100 billion we're having one on one sessions with them. We're planning to create FAQs as well, as these sessions continue. And all of this is to just ensure that they are successful in their submission process.

And the last thing I'll also mention is that from the supervisory side that we're also having sessions with our supervisory colleagues to ensure that we can leverage the supervisory process when it gets into engagement and capabilities testing.

So beyond that, we're just looking forward to really leveraging this information once it comes through the door come next year and looking forward to seeing the submissions at that point. I'm going to pass it over to Robb now. Thanks.

MEMBER REED: Can I ask a question?

MR. KHANI: Sure.

MEMBER REED: I'd be interested, when you say you meet with the banks, with whom are you meeting, people who are executives in the bank, their lawyers? Who is it?

MR. KHANI: It depends on the sessions. So I can speak to the $100 billion. I'll defer to Betsy for more details on the over

100. But essentially we're from C-suite down to actual participants that would be more engaged in the actual operations. So really ground level as well.

MEMBER REED: Yes.

MEMBER BERNANKE: - question? I guess the -$50 to $100 billion are legislative limits, right? But there are sort of cliff effects there, right? So big difference between a 49 and a 51. Is it possible to have additional criteria like structure types of assets, types of business that could be incorporated into designations, or is that just ruled out by the legislation?

MR. KHANI: As it stands it's just based on total assets over $50 billion. That's the threshold that was set up originally as well for the 360.10 rule.

MS. FALLOON: I'll just add --

MS. VAN GORDER: If I may might add -- oh, sorry. Go ahead.

MS. FALLOON: Sorry.

MS. VAN GORDER: If I might add one point, that for our own IDI resolution plan rule it's, - there's no statutory threshold. It's- a question of regulatory matters.

MEMBER HERRING: I got a follow-up question that's quite similar. One of the problems we noticed with the failure of the three large regionals was the rate of growth mattered a lot and by the time you detected they surpassed your threshold it was way too late to have the information available.

Now part of this will help, but sort of Banking Supervision 101 suggests that the people you have to worry most about are those that are growing at an incredibly rapid pace. And we had three cases in point. Is there anything in the new rules that would help you catch those cases more quickly?

MS. FALLOON: So one feature of the rule that is helpful, right, is that we have banks $50 to $100 billion in the process. And we

certainly are developing plans for outreach ahead of moving across these thresholds and making sure that our groups are very well coordinated. And we have a process for meeting and discussing resolution issues as well as supervisory issues for banks as they move ahead and cross the threshold.

So between our two groups the coordination helps us a lot. There's a large amount of content that is required of the $50 to $100 billion banks that exactly the same applies. So we're very coordinated in terms of what we tell the banks and how we do our outreach.

The big difference in the plans is the idea of an overall resolution strategy which is required for the biggest banks, but we would have a lot of useful information should a bank fail without having completed that portion.

MEMBER HERRING: That's reassuring, but wouldn't it make sense to have rate of growth be one of the criteria that sort of flags a bank

for closer scrutiny given recent experience?

MS. FALLOON: I mean, we think about different ways of drawing these lines, and size is one that everybody can see and everybody can recognize. Obviously it's not the only one. And we've tried different systems of like trying to tailor the requirements to what the footprint of the firm. For instance, should everybody have cross-border requirements or should we only have cross-border requirements for banks that have a cross-border footprint?

And the way we decided to approach that is to say everybody has a cross-border requirement. If it doesn't apply to you, explain to us that and tell us why not as opposed to trying for us to tailor too specifically to the firm characteristics. We would like the firms to know everything we'd like to have and they can tell us why it doesn't apply and isn't necessary in their case.

MEMBER TAHYAR: Maybe I can give you

some assurance from the private sector. I think that if we're looking at rapid rate of growth and we're in resolution planning, we're too late. It needs to be more upstream at the supervisory -- in the examinations, the MRAs, the MRIAs. And I can tell you that is happening definitely.

CHAIRMAN GRUENBERG: Yes, if I can-- to follow up on Meg's point, rapid growth is one of the big risk lessons we learned last year. Silicon Valley tripled in size in two years. Signature Bank doubled in size in two years. In the points you're raising, that rate of growth can have significant consequences for resolution.

So it really underscores, I think on our end, the need for collaboration between the supervisors and the resolution planning folks because as the size and complexity of the institution may change in short periods of time, we really need to be able to take that into account from a resolution planning standpoint, as

we saw last year, because it can happen pretty fast.

MEMBER HERRING: Yes, with cliff effects it's very quick for one bank to sort of pass the threshold for enhanced observation. And I think the other thing that one could worry about, which you seem to have taken care of by integrating it at the start, is handing off between one group that looks at banks between 50 and 100 and another that looks at 100 and up. And I'm encouraged that you're all sort of coordinating this very closely now because the handoff is critical.

MEMBER CUNLIFFE: Yes, I had a separate question, which is around valuation. So one of the experiences we had with a couple of near resolutions that didn't quite happen of banks, which in the UK system may look similar to the $50 to $100 billion. Is there actually valuation of the assets is key to knowing how big a problem you've got, particularly if they're not

carrying sort of full fat TLAC, if I could put it that way.

So was the reason for exempting this category from valuation simply that the cost is too great for them to do that? And how will you manage in a fast-burn situation kind of -- basically if they haven't put in place economic -- kind of economic valuation, worst-case valuation of the assets?

MR. KHANI: Yes, I mean, so valuation is kind of a point in -time --

MEMBER CUNLIFFE: Yes.

MR. KHANI: component to it. And what would really help us so keep in mind for the $50 to $100 billion information we are going to ascertain from these firms will allow us to kind of be in a position to do a lot of the work ourselves. So this is to help us inform our own strategy to resolve these institutions under an FDI Act.

Now having said that, some of it is

just really the types of assets that they have. We can easily bucket them. So for example, even on the securities portfolio you're going to know quickly. Even from the buckets that they have we can kind of come up with our own valuations about what we expect to receive. So we get a ballpark idea of where they are in terms of where the value is.

I think some of the other components that are harder to see in terms of asset valuations are going to be what is separatable from a franchise basis, right? How can you actually separate this business and monetize it in the market? Is it separatable at all? I think those are the insights that will also be critical for us to execute.

MEMBER CUNLIFFE: But it was -- you just felt it was too heavy a cost to impose upon them to have those valuation --

(Simultaneous speaking.)

MR. KHANI: For the 50 to 100, just

given that we think that we can -- we're in a pretty good position to have an understanding.

MR. CONNORS: Okay. I guess we'll go onto our next topic then.

So another of the enhancements that we implemented in 2024 to address risk to financial stability is that in July we issued, jointly with the Federal Reserve, guidance to help certain large regional bank holding companies and certain foreign banking organizations improve their Dodd Frank Title 1 resolution plans. And I'd like to leave you today with a little bit of insight into why that guidance is important and some of its most fundamental clarifications.

So the first reason why this guidance is important is that it will help strengthen plans based upon the lessons that we had reinforced again just last year. We saw that regional banks can and did fail, and if they fail that can have serious adverse effects on U.S. financial stability. And several of the

companies subject to this guidance operate banks, insured banks, that are larger or more complex than those that failed last year and that required the systemic risk exception.

We also witnessed that large banks can fail faster or in ways that we did not previously anticipate and that certain tools that are useful in supervision and that were thought to be helpful in a resolution are in fact incomplete for resolution planning purposes such as stress testing or certain financial metrics. Breakdowns also in providing for either operational or financial needs can complicate the resolution and endanger financial stability.

So another reason that we issued this guidance is that we considered what we had observed in prior resolution plans, whether or not there were inconsistencies in the amount and nature of information provided by this group of companies in certain key areas. And some of the companies simplified their resolution plans by

including optimistic assumptions that may not be present in a real resolution event.

So this guidance will help support a more comprehensive resolution planning process that is grounded in conditions as may be present in an actual resolution event and it helps guides the companies in how they may more fully address similar challenges that may be present. And the last thing I would add is that we had issued guidance to the GSIBs in 2019 and certain FBOs and this package kind of rounds out a package of clarifying guidance to all of the larger resolution plan filers.

Now in terms of the key content, or key clarifications offered by this guidance, one of the key components is that the agencies are maintaining a long-standing practice of not prescribing a firm's Title I resolution plan strategy, whether they use a single point of entry at the top of the company where the subsidiaries all remain open and

operating -- what we call SPOE -- or use a multiple point of entry approach where a bank holding company enters bankruptcy and subsidiaries also enter their own resolution regimes such as an insured bank entering into an FDI Act resolution, which we call an MPOE.

That decision should be the firm's choice and it should reflect its comprehensive assessment of its operations capabilities and risks that its failure may present to financial stability. The simple truth is they know themselves better than we do and so the strategy is best designed by them.

We've made it clear in this guidance that both SPOE and MPOE are acceptable strategy choices. We recognize that these two different strategies have different vulnerabilities and require different types of capabilities in order to be able to execute on the plan. So we've separated the guidance into those aspects that are applicable to firms choosing an SPOE strategy

and other content that applies if they're choosing an MPOE strategy.

The SPOE guidance for instance illustrates that it is not a shelf-ready concept. It requires real planning to be effective even in a regional banking company. And to that end, the guidance includes sophisticated capital and liquidity prepositioning and execution concepts to help ensure that the subsidiaries remain open and operating during the resolution process. And it also includes governance mechanisms such as triggers to help ensure that the timing of a bankruptcy filing occurs properly so the strategy will be successful.

The MPOE guidance recognizes that subsidiaries do not stay open and operating, so companies should approach their planning and their capabilities development differently. For example, a plan involving a failed bank subsidiary with an MPOE strategy does not require resolution capital per se, but it should explain

how the requirements of the Federal Deposit Insurance Act could be met without depending upon extraordinary government support such as the systemic risk exception that was needed in 2023. If a plan does not provide that kind of explanation, it would be appropriate to conclude that the strategy would not satisfy the FDI Act's requirements which could represent a weakness in the plan.

Though capabilities necessary for the MPOE approach are different and sometimes reduced from those needed for SPOE, certain capabilities remain important nonetheless such as it's important that they have liquidity capabilities that match up to that strategy including the ability to analyze the position and project a range of potential needs during resolution and that they have in place the arrangements that will allow for operational and support services material to the execution strategy to continue just the same.

I'll now conclude my remarks by responding -- before I responding to any questions by summarizing again that this guidance incorporates the lessons of the failures of 2023, it recognizes that either strategy can be acceptable, and it clarifies that the strategy choice requires sufficient planning for both financial and operational needs regardless of the strategy, but geared to the strategy.

I'll stop there and field any questions you may have.

MEMBER MAYOPOULOS: I have a question about what I think of as one of the key operational issues. So in running the Silicon Valley Bridge Bank, we were successful in getting in place retention arrangements for the vast majority of employees, and I was pleased to see that reflected in the plans here, but one of the things we were never able to get done was a retention plan for the executive team. I think there was understandable wariness about giving

retention awards to folks who might have contributed to the failures of the institution, but as you're thinking about running a bridge bank for any length of time, being able to keep those key executives in place is essential.

And I'm curious as to how you all are thinking about that given this tension between the fact that there is wariness about rewarding folks who may have contributed to the failure, on the other hand one certainly -- as a CEO who's stepping in to run a bridge bank, my reliance on those people was quite heavy, so I'm wondering how you're thinking about that and whether -- if the clawback arrangements or some other kinds of arrangements built into those contracts that would allow money to be forfeited by the executives but still be able to serve as a retention package.

MR. CONNORS: I think for purposes of Title I planning we were trying to tackle the first component, which is identifying who the

important people to retain are and why they're important, whether or not the FDIC, if it's executing a bank resolution, or if it were Title II does that, well, that's going to be a circumstance dependent decision.

In the Title I world it's really more about the company making sure that they've identified who they need and as they are preparing their bankruptcy process that they are looking to retain who they think they need. Remember, if things go as planned in a lot of these situations -- or at least in an SPOE, it's just going through the bankruptcy process. The subsidiaries stay open and operating and the FDIC can be an observer and doesn't really need to engage. And so that's how Title I is largely built.

But if it is an MPOE within Title I, then we have some principles here, and then we incorporate also, as Betsy discussed, the IDI 360.10 rule which goes into more depth around

what's need to actually execute an IDI resolution.

MS. FALLOON: I'll just add to that a little bit. I think we touched on this a little bit last year as well, because it is a takeaway from last year's events that we have requirements for retention plans built into our resolution planning requirements, but when you get to the senior executive level there's a tension between accountability -- and at this point you're still fact finding -- versus retaining the people that you need to continue to successfully run the enterprise. And I would say that's an ongoing effort.

We recognize that it's really important to be able to keep in place the people that run and manage the institution, to have a successful bridge and to - I mean, in a short-- term bridge it was very hard. In some cases we may be faced with a longer- term bridge and it's even harder. So we recognize the problem and

it's something that we have been giving a great deal of thought to, but I don't think that problem is -solved - speaking for myself, is solved in the resolution plan-.

We ask for information. We ask for a retention plan. But when you get to those senior levels where the question is one of accountability versus giving them the assurances that they need to continue to stay at the table and do the job. I don't expect to find that in the resolution plan, but it's something that we need to be working hard on internally.

MR. KHANI: Yes, I was just going to add a small point. I mean, beyond just the bridge we look at retention or key personnel throughout the resolution life cycle. So even things that are retained in receivership. What are the operational systems and the people around you that you need? We get pretty ground level depending on the businesses that are held. And even overseas operations you'd want to know who

there -- who are the key people to retain in those areas to maintain -- or essentially keep the lights on unlit you can monetize them or resolve them.

MEMBER MAYOPOULOS: Sure. I don't mean to suggest that the senior-most executives are the only key operational personnel. They're not. But just speaking from my own personal experience, trying to sort out those issues in the middle of a crisis is just about impossible. And one's not going to get to any answer around accountability in the matter of a week or two or three. It takes a long time.

And so my respectful suggestion would be like one just needs to decide whether you're willing to make those awards and keep those people in place, except for those people you've clearly concluded are accountable, and then have some mechanism to take that money back in the event that the accountability process ultimately does show that those people are accountable. But

waiting until you're actually in the midst of the crisis to sort out those retention issues at the executive level I think means ultimately they just don't get resolved, which means that you have a lot of potential instability in the situation.

MEMBER CLARK: I have a -- can you hear me? I have a question and -- or maybe it's a statement, but hopefully there will be a question in there somewhere.

Back to the valuation issue that was raised before. So I was 24 years a supervisor. I understand the challenges of being a supervisor in these situations. And I think it's great that you have confidence, your ability to do valuation of simple portfolios, et cetera, but the fundamental point here is that this is the bank's job, right? The bank is supposed to be running itself and you have an expectation for a process that they're supposed to have.

So I would advise you as an advisory

committee member to focus more -- to put some emphasis on whether the key people in the institution are actually capable of doing their job. And if they can't do an appropriate valuation under a variety of potential scenarios, I think the answer is close to no. So I just put that out there.

Now I'll get to a question maybe. So guidance has been around for a while now in resolution planning. 2016 or when -- 2014 to '16, whatever, it was a long process. I was there for some of it. How is that working? I mean because my initial concern at that point in time was that we should actually be putting things into rules rather than as guidance. We all know guidance can be squishy. It's quote/unquote not enforceable.

Since that time all of the agencies have come out and actually further downplayed the importance of guidance publicly in a statement. I can't remember exactly what year it came out,

but 2017-'18. So basically telling their examiners, hey, be careful; don't use guidance too much. But one of the most important things we have asked these firms to do were actually putting a lot of it into guidance. How is that working?

MR. CONNORS: Yes, so my opinion is that it has been very helpful because -- so I think a first is that the guidance isn't a check list of things that you must do and if you do them, you pass; if you don't do them, you fail. The threshold principle is still whether or not your plan is credible or is -- not not credible -- it would, it would facilitate an orderly resolution. That's still the standard.

And the guidance is just meant to help provide insights and considerations and tools that the firms might use to help demonstrate that they can in fact execute on their plan. And in some of the conversations that we've had with industry over the years we've seen some

advancements that have not come from supervisory agencies, but came from the industry as they thought about trying to implement some of the general concepts in the guidance, like RLEN, which is your liquidity execution need, and the ability to have liquidity and to be able to estimate how much you need and have it and then do your bankruptcy process.

They've built some systems to do this. They've thought about the fact that conditions can change and that you need to be dynamic, not just calculating a number as one point in time. So the guidance pointed the direction, and I think that it's been helpful in -- with some of the institutions thinking about this and then trying to operationalize it.

I won't say we're fully there. We're not. The findings from the last Title I review showed that. But it's a step.

MEMBER CLARK: Okay. Thank you. Yes, I mean I do understand the challenge, but I guess

I -- well, I'll leave it there. I can come back to this.

MEMBER DRAIN: So, one of the lessons from last year was just how rapidly cash moves out of these institutions. And I guess it sounds like you've focused on that in this guidance, but I also want to make sure that you've focused on what appears to me to be the greatly increased cost of complicated Chapter 11 cases. You look at the cost of FTX, for example. And I don't know if your planning includes that type of budget. You're talking like hundreds of - hundred- plus- million dollars easily.

MR. CONNORS: Yes, so I'll admit that we haven't tried to enunciate every kind of expense that these companies might have to have, but one of the concepts again is RCAP. In RCEN you have to preposition capital, you have to have enough capital to complete your resolution if you're doing a reorg and bankruptcy. And any costs, any business operations, any expenses

would eat into that capital.

So if that cost is increasing what firms will have to do is recognize that as an expense and - it will effectively accelerate the trigger point at which they file because they've gotten closer to hitting that threshold point in their capital ratios.

So while I wouldn't say we've captured it by name, anything that eats into your capital cushion should be captured into your RCAP and RCEN modeling.

MEMBER DRAIN: It's not the type of thing you can resolve with TLAC. It's real cash.

MR. CONNORS: Right.

MR. FELTON: Should we move on? So last year we discussed the Notice of Proposed Rulemaking that the FDIC, Federal Reserve, and OCC had recently published proposing a long-term debt requirement for regional banks. And while the FDIC and the other agencies are still in the process of analyzing comments -- and as Celia

mentioned before, I'm very limited in discussing any aspects of our thinking or where we're going on a final rule -- we thought it might be of interest to the committee to briefly review that NPR and hear about the aspects of the NPR that attracted the most significant number of comments.

The NPR generally proposed a requirement for IDIs to issue subordinated unsecured long-term debt from their -holding - to their holding companies which would then issue debt to the markets. This could be used to recapitalize a failed bank and expand the range of options that the FDIC could use to resolve a failed bank-.

I would say there are three areas of the NPR that attracted the most feedback from the public: the minimum denomination requirement; the dual holding company and IDI requirement; and the calibration of the requirements.

In the NPR we propose that the bonds

would have to be issued with a minimum denomination of $400,000. This would have been a new requirement for TLAC bonds issued by GSIBs as well. And the point of this was to ensure that the debt would be held by larger, more sophisticated investors who would be better placed to absorb any losses associated with these instruments.

We've seen other jurisdictions face issues when bail-inable debt is widely held by retail account holders. The denomination amount was based on an analysis of retail bond holdings using the Survey of Consumer Finances. However, public comments were generally opposed to this feature. Most bonds currently issued by banks have denominations of either $2,000 or nothing at all. And commenters expressed concern that this would decrease liquidity in the market. They also asserted that direct retail holdings of bank bonds are currently de minimis in the United States, unlike some of those other jurisdictions.

Another area of public comment was the dual requirement that covered firms issue externally from their holding companies and then downstream that to their bank subsidiaries. This is a slightly different set up than the existing TLAC rule where the pre-positioning expectations are less strictly defined because of the existing GSIB Title I guidance related to capital and liquidity pre-positioning.

Under the long-term debt proposal we required full prepositioning at the IDI because the firms in scope of this rule all have the majority of their assets in the IDI and we think that is the most likely source of failure of these firms. However, commenters identified some potential frictions in imposing this requirement that we are considering carefully.

First of all, the requirement may have an effect on the consolidated firm's liquidity coverage ratio. The LTD issued by the bank IDI will typically improve the IDI's LCR; however

this increases the amount of trapped liquidity at the IDI which can't be counted in the consolidated firms' LCR and therefore might lower the consolidated LCR. This wouldn't have an economic impact necessarily on the liquidity at the bank, but it would have the effect of lowering the consolidated ratio.

Furthermore, for firms that already have issued LTD at the parent level but deployed it in some other manner -- typically, for example, as an equity investment in the subsidiary -- it may be difficult to convert this into long-term debt and therefore might require them to issue long-term debt above and beyond just the minimum requirement, at least for the period while they're rebalancing their balance sheet.

Finally, we received a lot of feedback on the calibration of the proposal's requirements. The proposed calibration was 6 percent of risk-rated assets, 3.5 percent of

average assets, and for firms that are subject to the supplementary leverage ratio, 2.5 percent of their total leverage exposure. These numbers were calibrated under a similar capital refill framework used -- as used in TLAC. However, some commenters suggested that regional banks, particularly the Category 4 firms, might have less frequent access to the larger banks and GSIBs and that a lower calibration might be appropriate.

I hope this has been a helpful overview of the comments. We're considering these and all other comments from the public very carefully and at a future SRAC meeting I look forward to updating you on the final rule and its implementation.

MEMBER ERVIN: A question from my side if I may on the calibration. This also goes back to our prior conversation about valuation. My back-of-the-envelope is that these requirements if applied to the regional crisis would have cut

DIF losses by 50, 60, 65 percent, depending on exactly how they were implemented in practice, which is great. It really privatizes and internalizes some of the risks that banks take.

But one of the challenges we faced last year was that banks were in a pretty big hole because of mark-to-market on security portfolios, but also some loan portfolios -in -as- in the First Republic case.

I know there are some reforms going -- available for sale securities -- but do we feel those have gone far enough to also look at all the maturity accounts and the loan accounts to make sure that we've captured some of those interest rate risks more broadly and we haven't simply moved it from one bucket to another so we're not starting in such a deep hole when we're looking at the TLAC refill?

MR. FELTON: Sure. So a couple of points there. So first of all, there are some -- obviously some pending rulemaking on

capital requirements around securities portfolios and AOCI. This has also been an area that the supervisors have spent a lot of time looking at, making sure that banks have adequate liquidity and that they're able to monetize their HQLA portfolios and looking at available for sale versus held for maturity, the percentage in each bucket.

And also we are - one of the aspects of the long-term debt rule that we are hopeful that would have made a difference also is that uninsured depositors might have less incentive to run in the first place if they know that there is long-term- debt available ahead of them to absorb losses and that there's less of a run for the door in that manner.

MEMBER ERVIN: My sense of the dialogue from people who are depositors into those accounts was not a lot of thoughtful capital first analysis.

(Laughter.)

MR. FELTON: That may be the case.

MEMBER CUNLIFFE: Just a follow-up question. So, and you touched on -it - maybe it's not for the FDIC, but this question of interest rate risk in the banking book, which was kind the heart of this, which has been going backwards and forwards in Basel for decades, I think. If you don't have the going concern capital provision for that -risk - so- UK has it under its second pillar - then how do you size the refill, if I could put it that way, to make sure that you captured it-?

And secondly, I might not have heard it properly, but some of the pushback was, well, the banks don't have access to the market so it's maybe not proportionate to ask them that much. But if the objective is to be able to recap by writing down the loss absorbing capital, whether it's debt or equity, then in a way, I mean, you fail that objective if you size it below that because they haven't got market access. You have

to think of another way of doing that. It's just a question of being 80 percent of the way there in a resolution when you want to keep things open. Doesn't -necessarily - I- think getting close doesn't necessarily help. You kind of need to size the refill properly.

And the last question was on this question of retail investors, which is absolutely terrifying, if you have to do a resolution and write down retail investors, you won't. I mean, politically you just won't be allowed to, I think. And certainly in the UK you couldn't do that. So the sale of TLAC to retail investors is prohibited, I think, or conditioned by the SEC rules in the UK

So it's actually not done by denomination. It's done by the rules around sophisticated investors versus non sophisticated investors. And that's probably a better way to do it. Okay. You have some definitional issues about where you put the cut between those two

things, then trying to make the sum so large that only very rich retail investors could get there.

Have you explored with the other -- I assume it's the SEC in the U.S. that would do this. Have you explored the other route, which is basically a kind of regulatory route between sophisticated and non-sophisticated? To try and get at that denomination I think is -- you -- I mean, it's fine if not many small investors are holding $2,000 worth of TLAC, but if that were to grow, I think that just the political pressure of trying to use it will be enormous. So I just don't know.

MS. VAN GORDER: I'm just going to jump in real quickly on the question of what we may or may not have discussed with the SEC. I think given the pending rulemaking it might be challenging for us to talk about --

MEMBER CUNLIFFE: Okay.

MS. VAN GORDER: -- the other alternatives we may or may not have explored. So

if you wouldn't mind, I'd like to take that last bit off the table.

(Laughter.)

MEMBER CUNLIFFE: I was trying to be helpful.

MR. FELTON: And with regard to your first two questions, which are sort of really both about sort of the quantum of recapitalization required, I think it's always challenging to predict in advance how much will be needed. Very few banks fail with exactly zero percent capital. So we do have this -- but we do have this idea that we'll assume that they have -- especially for these banks that are subject to resolution planning guidance -- that they will perhaps fail with roughly zero percent capital. Then we can recapitalize them. There could be other factors that are not always perfectly captured in our existing capital requirements like interest rate risk. That's done typically more through a supervisory

function.

With regard to the smaller banks, one of the arguments that the public made in their comment letters was that because these smaller banks have less frequent access to the market, then they would be forced to hold higher buffers and that that would serve as a -- that they would therefore sort of be less able to run closer to the minimum requirement. So they would de facto end up holding more.

And perhaps with that, since we are running short on time and I want to make sure there's enough time for Guest Speaker Walter, maybe I can pass it to Pat.

MR. MITCHELL: Thanks. I think I have 24 seconds. So with that I will truncate my comments a bit and happy to dive into anything with questions.

But if you go to slide 11 -- I think it's slide 11. And I'll be quick on this because again it's really history. You had the failures

of SVB and the resulting failure --

CHAIRMAN GRUENBERG: But important history, I might --

MR. MITCHELL: Well, it is. And I'm going to truncate it a bit, only because I think people are somewhat aware. And Signature two days later. And then the systemic risk exception was invoked. Now one of the key parts of that of course was it allowed the FDIC to complete its resolution in a manner that fully protected all depositors, including uninsured depositors.

Now one thing -- and I'm going to try and channel -- to Chairman Gruenberg's point, I'm going to try and channel him here, but probably fail. It's worth noting the two institutions were allowed to fail. Shareholders lost their investment. Unsecured creditors took losses. And the boards and most senior executives were removed. So again, the protection was limited to uninsured depositors, the additional protection.

But the key point of this discussion,

at least from my perspective, is that as a result of these actions there was a downstream result of a special assessment that was associated with losses related to uninsured depositors. And that is that under the FDI Act the loss to the DIF arising from the systemic risk exception requires -- in this case, the case of the coverage of uninsured depositors -- requires that loss to be recovered from the industry.

So now onto slide 12. And this shows the actual loss estimates as of June 30th. And the total loss and total across the two estimated at $22.4 billion. And then the estimated losses attributable to - and this is a key -point - attributable to the protection of uninsured depositors was estimated to be approximately $19.2 billion. So largely the- overwhelming majority, because of the amount of uninsured depositors the losses associated, were to the uninsured depositor coverage.

So one key point that's important to

make here is that these loss estimates have always been estimates. We advertise them as such. And they will always be periodically updated and adjusted as liabilities are satisfied, assets are recovered. And the current estimate of $19.2 billion of losses to the uninsured depositors is an increase of approximately $2.9 billion from the initial estimate - well, the estimate at the time of -the - of our finalization of the special assessment of $16.3 billion. So that increase was -largely due to recoveries from assets in receivership that were less than previously anticipated and higher cost of liabilities assumed by the receiverships.

Now onto slide 13, I believe.

MEMBER HERRING: Patrick, could I ask a quick question with a point of information? Silicon Valley Bank had widely advertised uninsured deposits that were 90% and above, and this is distinctly lower number. Is that because

measurement of uninsured deposits is inexact? Or does it reflect a sort of weakness?

It seems to me that one of the key things you need to know is the amount of uninsured deposits. And if it's really subject to plus or minus 7 or 8%, that could make a difference.

MR. MITCHELL: So one, we're going to talk about the request for information (RFI), which we have related to deposits, which I think will get a little bit to your point, question. However, having said that, the key point here is this is a percentage of uninsured depositors at the time of failure.

MEMBER HERRING: Yeah.

MR. MITCHELL: So largely the numbers you see in the public were fourth quarter of 2022.

MEMBER HERRING: Okay.

MR. MITCHELL: And so as you know, some uninsured depositors ran. And so this is reflected at that time. It's a combination of both points you make and that the, even the number

on the call report, that people look to is an estimated uninsured. So it's estimated.

And then the key point here is this is our view of what was actually at failure. So that's why you see both banks have a lower percentage than they --

MEMBER HERRING: Yeah, and that simply reflects the fact they did run.

MR. MITCHELL: They ran, that's right, they ran. At least in part. But there's also an estimated piece to this too.

MEMBER COHEN: Sorry, I know we're short on time, but a question. This is a fascinating chart, so what it shows is an extraordinary discrepancy between the losses at SVB and Signature. And factor in both SVB's larger size and greater percentage of uninsureds. That still doesn't explain the 7 to 1 differential in loss.

And I'm wondering if the FDIC at this point has figured out or studied at least why so

much greater loss at SVB than Signature.

MR. MITCHELL: I'm going to look to Shawn Khani here to help me out on this one.

MR. KHANI: Well, some of these again are estimates, but I think it's – I'm just looking at the chart right now. There's a lot of factors at play here. And you know, these are vastly different businesses. SVB did have much more in terms of securities, a much larger securities portfolio. It had mark-to-market issues. So that's a simple one.

But also just, you know, if you look at the -- some of it's a function of what the market ultimately bid for the institution to begin with. So sometimes it's you see the realities of valuation when you actually put it to market. And that's kind of partly at play as well.

And it was just a more complicated, to be honest, more complex institution, all things being equal in terms of the global scope that SVB

had. And they kind of were in slightly different businesses, even though Signature was more in a CRE versus SVB as well.

MR. MITCHELL: And I would note, I mean, again that historically the average loss rate on a failure, if you look back into the crisis, was I think approximately 18%. But the variation has always been extreme across.

So it really does depend on the assets, the value of those assets, again, the franchise value. There's a number of factors that play in always. Not specific to the two institutions, but certainly this isn't abnormal if you look across our history of failures.

MEMBER COHEN: Right, and I think franchise value is a critical component here and needs to be part of the resolution, critical part of the resolution plan, planning.

MR. KHANI: Yeah, absolutely, I mean, even identifying the franchise values. What are the franchise components that you could value and

are they actually marketable, meaning can you separate them and actually realize valuation or a value for it when you actually put it to market.

So those are things that we definitely faced during 2023 and we're looking to solve for with this rulemaking.

MR. MITCHELL: Okay, so on to slide 13.

MEMBER CLARK: Can I ask one question?

MR. MITCHELL: I'm sorry.

MEMBER CLARK: This does go back a little bit to the earlier comment about the cliff effect and setting, you know, what makes it systemic by size.

Have we learned anything from these episodes that actually could be factored into your consideration of what makes a firm systemic? Or is there some restriction on the law that doesn't allow you to take what you've learned and use it in that way?

MS. VAN GORDER: I would say it

depends in part on what regime we're talking... Sorry, it depends in part on what regime we're talking about. If we're talking about Title One, there are some very clear boundaries that were set by Congress. And so that's not something that we have discretion to operate around.

With respect to our own IDI resolution planning, we have more discretion. And you will see in the current version of the rule as compared to the prior version, there is more of a focus on systemic impact, that, that's something we recognize is important. And coming out of 2023, we have an enhanced appreciation of what kind of institutions pose systemic risk.

MEMBER CLARK: Okay, thank you.

CHAIRMAN GRUENBERG: I would add, Tim, I think in the past we suspected institutions as relatively small as these could still be a systemic consequence. I think last year eliminated any doubt we might have had.

And I think the, you know, the

measures we're talking about here this morning significantly strengthen resolution plan requirements at the bank level for institutions of this size and the proposal of the long-term debt requirement, which were really measures previously principally applied to GSIBs.

And I think we are now moving those down, at least to the $100 billion level. Frankly, in recognition of the systemic risk experience we had last year.

MEMBER CLARK: Thanks, Marty, yeah.

MR. MITCHELL: And there's a reason why they sat me next to a lawyer, because I've wanted to jump in on all these questions. But anyways -- I shouldn't.

Anyway, so with that on, we're on 13, briefly on the special assessment. So in terms of the special assessment, it was finalized in November 2023, 312 comments on our NPR.

But in implementing the special assessment, it provided the FDIC with discretion

in the design timeframe. But importantly, required the FDIC to consider the types of entities that benefit from any action taken or assistance provided them to the determination of systemic risk, economic conditions, the effects on the industry, and other factors that the FDIC deems appropriate and relevant. So a pretty broad -- pretty broad scope here.

But in short, the special assessment as finalized was based on the amount of uninsured deposits reported as of December 31, 2022. That is, the last reporting period prior to the March failures and then the at least some form of for some institutions where deposits, uninsured deposits continue to flow out.

An important element of the special assessment was that while we looked at the total amount of uninsured deposits reported at that time, it actually excluded, there was a deduction for the first $5 billion of uninsured deposits. So really what this did is this excluded of course

by definition any institution that's $5 billion or less.

But also in essence because if you had $6 billion of uninsured deposits, you're only paying on that first billion. And really what this did is it pushed the special assessment towards larger institutions and also those institutions with more uninsured deposits. I think of them as being across two dimensions, the size and also concentration to uninsured deposits.

So in general we believe that large banks and regional banks, and this is always one of those counterfactuals, particularly those with large amounts of uninsured deposits, were the banks most exposed to and likely would have been the most affected by uninsured deposit runs, but for the determination of systemic risk. So those institutions have benefitted.

We also applied the deduction at the banking organization level to make sure that in

essence if a, if you have a holding, a bank holding company with four charters, you're not benefitting simply from your organization. So it applied it at the banking level to make sure that was the case.

Here, again, just to touch on estimated uninsured deposits, some institutions refiled their uninsured deposits. I note here as of some at least of our NPR, but some even prior to that of course, because some institutions looked at it and said whoa, this is a focus of risk and let me go and let me make sure that I'm estimating that appropriately.

We've actually, we looked at those changes. We also went in and did some reviews of those, of larger institutions subject to the special assessment. And again, what we found was certain institutions, their changes were absolutely fine. Other institutions we looked at and we said that's not, you know, that wasn't appropriate, asked them to refile.

So it's a, it was absolutely critical, not just for the special assessment, but also we, again, I think it's important to make sure that it's a risk, it's a risk stripe, it's a risk profile that it's important for the public to know.

And lastly here the collection period we established as eight quarters. And that was based upon if the estimate didn't change. Now at this point in time because the estimate has increased, it actually will shift out to ten quarters.

Not a full two extra quarters, but up to ten quarters, we're updating institutions quarterly as those -- as those loss estimates increase. If it were to drop again, of course it could be less than eight quarters. But one thing that we are required to do is to collect the entire amount of the loss, whatever that loss might be.

I'd also note that the eight quarters

was designed to do a couple things. One, it did require institutions, once we finalized the rule, to take a hit to income that quarter. So that quarter the entire -- the initial estimate, institutions took a hit to their income at that quarter.

But the eight, paid out over eight quarters allowed more liquidity planning and also did -- also allowed more time for the estimate to firm up. And we think that was important to make sure that the estimate won't necessarily be finalized but would be closer to final.

So now onto the slide 14. And this goes to, going back to the uninsured deposit question and comment, we put out an RFI in August that asked for requests for information from the industry regarding deposits, and largely uninsured deposits. One thing I would note here is there really is one -- I always simplify it, some people tell me I'm oversimplifying it.

But there's really one line item

that's buried in what I consider deep into the regulatory reporting, the call report of the banks. And it's called estimated uninsured deposits. There's a few other line items matter and do for all banks, and I know there's other reporting regimes for certain other types of deposits, LCR and things.

But you know, this really is asking for information from the industry for us to better understand the stability, the potential characteristics of different types of granular look at deposits to explain how these might have demonstrated stability and how they might have different characteristics.

Also we're hoping to get information out of here on what, you know, what would be appropriate if we were to ask for more granular information on deposits. What would be best for us to ask and how to ask and what would banks be able to report.

And lastly, we talked about this last

SRAC, our options for deposit insurance reform paper that was out at that point in time had explained that one thing we think would be helpful would be for business payment accounts to potentially receive additional coverage.

One thing we've asked for in the RFI is some information around that and how banks would think about that and how they might, banks and the public, how they might think about that. How they might think that would be defined and how they could in effect report. Because one thing we didn't try and do in that paper was actually define business payment accounts.

MEMBER TAHYAR: So Patrick, I just wanted to say I think the RFI is most excellent, and it is a great example of the kind of collaboration with the banking sector that Robb was talking about in the development of RLEN. So it's great that it went out as an RFI.

I note that also in the final IDI rule, you've also increased information on

deposits. So I think it's going to be very, very interesting to see what comes back here. Certainly, this is one of the big lessons learned.

One point that might make sense and I think you're probably already focused on it is there is a distinction between uninsured deposits and then muni and county and state collateralized deposits, which is something that a lot of folks didn't pay attention to until 2023.

MR. MITCHELL: Right, no, and that was one of those points where it actually still is uninsured, but from a, yes, from the depositor perspective, they could think of -- and it could have very different characteristics and we were seeking those comments.

MEMBER TAHYAR: We're going to be very, very interested to see the results of this RFI.

MR. MITCHELL: Absolutely.

MEMBER TAHYAR: It's really important.

CHAIRMAN GRUENBERG: You're not alone.

Historically the FDIC, I'll confess, was mostly concerned about insured deposits. We now have an increased interest in uninsured deposits. And hopefully this RFI will give us greater line of sight into that.

MEMBER CUNLIFFE: Also a question, so what the sort of '23 incident showed was business model risk basically. It was concentration of your liabilities, concentration of your asset base, etc. And that some firms have much higher risk profile just because of the nature of their business model.

What tools do you have as a resolution authority when you see the higher risk? So information is good, but if you see it as a big concentration here, do you have the freedom to adjust liquidity regulation, you know, for resolution? I guess you can't adjust loss-absorbing capital because you're citing that on something else.

But if you start to see, look, this

institution has a higher risk profile, we may wind up dealing with it one day, how much of your structure can you adjust to reflect that?

CHAIRMAN GRUENBERG: That's a good question.

MEMBER TAHYAR: Well, as a supervisor --

MEMBER CUNLIFFE: No, no, as a resolution --

MEMBER TAHYAR: Right, right.

MEMBER CUNLIFFE: Supervisor I understand.

MEMBER TAHYAR: Which is more upstream. But to me, resolution's too late. But you guys answer.

MR. CONNORS: So in some of our liquidity planning that we've tried to – we've tried to espouse principles of thinking about what your needs could be. So it's not that your need is X, it's not a prescribed percentage of a deposit type or an asset type that might leave.

It's meant to be geared toward your business activities.

And so if an institution has something that is more volatile, has something that is more susceptible to a significant change, significant run, that should all really truly be built into their planning as to how much they need to have set aside. And it could become a function of the trigger system, it could be a function of development of alternative solutions. If plan A doesn't work, how about plan B?

So I don't know if we've enunciated it quite in those terms, but I think the principles are still incorporated in our liquidity expectations.

MEMBER CUNLIFFE: So basically you could look to them to hold more liquidity or you could set the trigger for resolution with a -- with a higher point in the --

MR. CONNORS: Well, I don't know that we would set it, but we could look at their

trigger system and think about how are they setting their triggers and is this reasonable. We're not trying to create the resolution plan, again. The firms are writing their own resolution plans.

But we, if we thought that what they were designing would not work, that would be our responsibility would be then to point those concerns out.

MEMBER BERNANKE: It's natural for the FDIC to think about the banking system specifically, but you should be thinking about systemic stability as well. And in the payments issue, a bank -- if a company can't put its payments in the bank, it'll go to a money market fund or repo market or something like that, which has its own run risk, for example.

So let me just add my voice to having some kind of parallel thing that's similar to a money market fund but maybe with some additional collateral, some fees, and so on that is

protected maybe by collateral rather than by the FDIC, to allow, you know, companies to put large amounts of money for payroll purposes, etc.

MEMBER LA SALLA: Can I just ask, I'm listening to the conversation, I just want to come at it from a slightly different perspective.

Since the events and all the actions that we've been taking, the FDIC's been taking, have there been any unintended consequences that have surprised you either taken by the institutions themselves or depositors? Like what has changed in terms of business behavior post the event and the inquiries that have been made?

Did anything surprise anybody or has anything changed?

MEMBER ERVIN: Can I jump on that one, because one of the things that did surprise me was the growth in reciprocal deposits. This is a mechanism by which you can then reduce the amount of uninsured deposits you have if you're nervous about an institution.

So it's helpful in stabilizing some of the institutions that were struggling last spring, but it also expands the FDIC's deposit insurance, in effect. And so I was curious in your RFI, is that one of the things you're trying to understand better? Because that has been growing, not only in the United States, but I also understand over in Europe.

MR. MITCHELL: Right, and it's, I'm trying to remember if we have something in our -- on reciprocals. I'm not sure. But to that point on reciprocals, the growth was pretty -- was a lot of increased growth off a low base over that, yeah, first couple quarters. It's leveled off and plateaued a bit. And again, that, I don't know if that's surprising or not.

But and certainly there's concentrations, you know, it's not spread across the industry, though. So even looking at that simple average doesn't really paint the picture. And again, reciprocals is something institutions

can benefit by.

And from a supervisory perspective we just have to look in, you know, look at the concentrations there. I mean, that's my take on it.

MR. CONNORS: I would add that in my view from a supervisory perspective, I have seen institutions, while maybe not actively borrowing at the discount window, recognizing that that's a viable option and thinking about the importance of having some mobility of collateral or even starting to put collateral there to strengthen their alternative funding sources.

So that's a favorable thing that's come out of this.

MEMBER COHEN: So just, this is anecdotal and you may know, I think you probably do. I would have assumed that category 2, 3, 4, the percentage of uninsureds has declined significantly since 2023.

MR. MITCHELL: I look at the aggregate

and I mean, one thing, I'll speak to the aggregate and then you all. And it's I think it went from a peak of approximately 47%, depends a little bit how you wanted to measure it, but down to 40%. And it's really leveled off at that point in time, approximately 40%.

So I mean, one thing that maybe surprised people, it still remains, at least in the aggregate, at a very high level. And yes, that's a, you know, that's a decline. Some of that happened prior to the -- prior to 2023 as the effects from the pandemic, you know, kind of wore off.

But so I mean I think that's something that maybe I would have expected that continued to decline, and it's really leveled off, and yeah. In aggregate, by the way. Yeah, institution by institution, yeah.

MR. FELTON: Yeah, and I was just going to say I think there has been research published recently looking at reciprocals are

most common in the sort of under maybe $10-100 billion range. And we haven't seen quite as much, quite as drastic change of the balance sheets of categories 2, 3, and 4.

With that being said, I'm being informed that we had built in some buffer time into our --

CHAIRMAN GRUENBERG: We've lost that. But why don't we -- because we could go on on this subject I think for a while. Let me say this has been a terrific conversation. And very much your comments have been very helpful.

If I may, let me introduce, turn from the U.S. regional bank failures to the European episode and introduce our guest speaker, Stefan Walter, who as I mentioned is the Chief Executive Officer of the Swiss Financial Market Supervisory Authority, or FINMA, as it's known, to discuss the efforts in Switzerland to learn from the experience of Credit Suisse I think both on a supervisory and resolution policy basis.

As many of you may know, Stefan was appointed in April of this year by FINMA's board of directors and ratified by Switzerland's Federal Council. Just prior to his service in his current position, Stefan served as the Director General for Supervision with the European Central Bank.

His responsibilities included supervision of the largest Eurozone banking institutions, including the Eurozone's global systemically important banks.

And prior to that time, which is when I first got to know Stefan, he served as Secretary General of the Basel Committee on Banking Supervision from 2006 to 2011 and played a critical role in the post-crisis regulatory reforms that were implemented.

And prior to his service at the Basel Committee, Stefan served at the Federal Reserve Bank of New York, including as Senior Vice President responsible for supervisory policy, financial analysis, and financial stability.

So, the Swiss did well. They managed to recruit an extraordinarily able and experienced person to take over their regulatory authority. We really appreciate Stefan's willingness to be with us today and in some sense update us on where things stand in Switzerland now and the lessons learned from last year's experience.

MR. WALTER: Thanks a lot, Marty. And thanks for inviting me to this advisory committee. And it's great to see so many colleagues from various venues in the past.

So I'll try to, as you said, provide an update. Can you hear me?

MEMBER CLARK: I think just get a little closer.

MR. WALTER: Get a little closer, okay. Yeah, I'll try to provide an update on the situation in Switzerland on not just resolvability, but also the supervisory lessons learned, as you said. Because we're, you know,

we're an integrated supervisor. We have both resolution powers and going concern supervision, so I'd like to talk to both.

There are some slides, I believe, in your pack as well, so I'll mention. I think we start with slide 2 and give you a little bit of a retrospective.

This was the too big to fail regime leading into the crisis. And you know, there were key cornerstones put in place following the '08, '09 situation where it was UBS that was the institution that had gotten into difficulties at the time, following the GFC.

And that resulted in a number of requirements, such as having a clean holding structure, bankruptcy remoteness for corporate service entities. Also having the Swiss entity separable, and that's where most of the systemic activities are housed. And then of course to build up the loss absorbing capacity, the TLAC, to handle a bail-in.

And in addition, there were additional liquidity requirements beyond the Basel standards, which were quite helpful in handling the first wave of outflows in October 2022. But, of course, then you know weren't sufficient for the second wave in 2023.

And I think because of these preparatory investments, there were two - there were, you know, two options available at the time then, in March 2023. -The first was the single point of entry bail-in restructuring option-.

That was ready to implement, and thanks very much to a lot of collaboration that took place well in advance with the members of the Crisis Management Group to prepare for the ultimate March situation. So that was on the table. And also thanks to the close collaboration with a lot of people at the FDIC who are also involved.

The second option, the takeover of CS by UBS, which turned out to be the option that

was pursued, because it was seen as the least risky of the two. A resolution of a global GSIB had not been tested yet globally, so you know, when there was the possibility for a takeover via UBS, that was the option that ultimately was pursued.

I think it's important to highlight both options, you know, see the full write down of Additional Tier 1 instruments. And both options required, you know, a large amount of liquidity in the form of a liquidity backstop, which was provided through emergency legislative powers through the Swiss Federal Council, as no such instrument had been prepared in legislation before, which is one of the, of course one of the big lessons learned coming out of this.

Since then, FINMA and the Swiss Federal Council released their lessons learned reports and I'd like to present some of those thoughts to you. I'll focus on three areas.

The first is really from the

supervisory side, so on a going concern basis trying to reduce as much as possible the probability of a failure.

Second, then getting into the resolution topic, bringing down the -- sorry, the impact of a failure as much as possible. And then I'll end with a few thoughts on international cooperation and coordination.

So, turning to slide 3, starting with reducing the probability of a crisis. Of course, the best is to prevent it in the first place. And that really requires focusing on the quality of the management in the institution first and foremost, who should be responsible and have the incentives to be responsible.

Second, the need for enhanced supervisory powers. And then also strengthening forward-looking effective supervision based on some of the lessons learned. Some of the key -- one of the key things is indeed further expanding the powers to supervisors and making

sure that those are comparable to what you have in the U.S., the UK, and the EU.

And probably the most important is the early intervention powers and being able to have the full toolkit available in going concern and not that it starts becoming available as, you know, as you start slipping down going into more recovery kind of mode. Because it's pretty clear that things start with problems in risk culture, governance, and business model, and then only later do you start seeing losses. And even later do you see impacts on capital and liquidity.

And you could even have a situation where an institution hits the point of non-viability before the minimum capital and liquidity thresholds are hit. And so that's why it's so critical to start at the top of the food chain as much as possible.

Second, and this is a little bit of uniqueness in Switzerland, important to have even more focus on direct supervision and less focus

on external auditors because of some of the inherent conflicts. And it's just important supervisors are in there in the guts, down and dirty, you know, all the time.

Third, introduction of a Senior Managers Regime. Something we envy the colleagues from the UK for because it can assign responsibility to individuals and make it easier to remove people earlier if they're not meeting their responsibilities and can have a very preventive effect as well, because if you link it also to the bonus, for example, then it focuses the minds.

Fourth, naming and shaming. So, being able to publish enforcement actions. Right now, it's sort of the exception as opposed to the norm. It should be why don't you publish, instead of why do you publish.

Fifth, fines. Imposing fines on institutions also can have a sort of a discipline effect. And sixth, having very clear powers, not

just in the Swiss entity, but for the whole group, on resolvability. If the business model starts going in a direction that stands in contradiction to resolvability, then you need to have the power to intervene and stop that and force changes in the structure.

And so these powers are covered in the too big to fail report and so it's, that's why it's very important that that report be translated into legislation as soon as possible.

Then within those powers of course important to take the lessons from also a supervisory perspective. And here I think one of the big lessons is really these qualitative elements I referred to before and continue to deepen and enhance our toolkit to be able to assess weaknesses in governance and make that more tangible.

What are the red flags to intervene? Weaknesses in risk culture, and make that also more tangible, when one can intervene. And also

identifying business models that are increasingly unsustainable. And here, too, strengthening the supervisory toolkit.

Also, we are increasing our resources, in particular for the supervision of UBS, the much larger, of course, merged entity.

Then turning to slide 4, reducing the impact of a crisis. So here it's critical to do further work. In Switzerland we're now talking about one global GSIB instead of two. And we also have three domestic systemic institutions.

One is to strengthen the resilience in periods of stress, including recoverability. In the case of UBS, the systemic add-on will grow simply by the size. And then that triggers increase in the addon.

Second, it's important not to just to focus capital at group level but also the distribution of capital in the group. So, in particular, the parent institution that holds the major subsidiaries, especially the international

ones. And to fully capitalize the holdings in those -- in those subsidiaries so that when you sort of get into this procyclical cycle of losses hitting capital, if you fully cover that up front, then you don't have that knock-on- effect, which can become an impediment to resolvability and recoverability in periods of stress.

Further work on liquidity requirements. The discussion already took place about how the world has changed on the liquidity front. This is primarily a topic, though, for the Basel Committee.

And then lastly, strengthening the recovery plans to make them even more realistic for periods of stress and to really test and challenge those, because yeah, the assumptions of institutions can be a little bit rosy, and those really need to be, you know, kick the tires on those in good times.

Then turning to slide 5, on the resolution topic. So we're very much focused on

enhancing the resolution planning of UBS, since the bank of course is very large as a percentage of the economy. Now, it's smaller than what the original UBS was in '08, but it's bigger of course than Credit Suisse alone.

And so the SPE strategy remains the preferred strategy. And it's important to further work on that, and in particular to make sure that, you know, the integration work moves as fast as possible so that, you know, one has the -- one has integrated data for the whole institution as opposed to kind of two pieces of information which, you know, which obviously complicate things like valuation and data rooms and just the quality of the -- in the information in a resolution scenario.

But you know, that's something where we came out today saying that the institution needs to make improvements. But there are work-arounds for the interim, even though, you know, we'll want to get to the final state.

The second is increasing the optionality for a resolution situation. So here the focus is not just on SPE sort of reconstitution and continuing with the institution, which is probably something best for an '08-type UBS situation.

But also to have the option of a market exit scenario, which is, you know, a situation where you may have a fundamental loss of confidence in the business model and the reputation of the institution, and therefore want the ability to be able to sell key parts, and then the parts -- the other parts you can't, to be able to wind those down in an orderly way.

The third option is a sale or merger of the institution. In resolution that's obviously not a Swiss option, that would be a global option and also important to continue fleshing that out.

And so the too big- to- fail report fleshes out how to strengthen the foundations of

these different initiatives, and in particular also for the last two additional options to make sure that they -are - that the legal foundations underpinning those are as robust, robuster- than what we have now.

And that you then have these three kind of core approaches, but you know, there may be variants between them and how you might mix and match. Because you can never predict exactly, you know, what will happen.

All options also require strong liquidity support. So another key part of the package is the public liquidity backstop and turn that into legislation -- and you know, something that's in place ex ante and doesn't require again an emergency type action.

Another element is having maximum flexibility is to have a bridge bank option. I mean, it's in there, but it's not really fleshed out and elaborated. And so it's very important to, yeah, to establish that option also, give it

more structure and legal certainty for a bridge-bank type solution. Therefore, yeah, making all these options even more executable.

For example, situations where you may need to buy some time, and that's where a bridge bank can be particularly important.

And then the last slide, just to conclude --

MEMBER HERRING: Excuse me, Stefan.

MR. WALTER: Yup?

MEMBER HERRING: The slide you just finished, bridge bank versus clear holding company?

MR. WALTER: A clean, clean holding.

MEMBER HERRING: Clean, okay, it's a typo.

MR. WALTER: Oh, sorry.

MEMBER HERRING: I was confused.

MR. WALTER: So the idea is, I mean, there is already a clean holding company requirement.

MEMBER HERRING: Yeah, that's.

MR. WALTER: Yeah, having a bridge on top of that can create even more optionality. Although the more clear it is, the better too.

Yeah, and then on international collaboration, that's absolutely critical and something we want to deepen even more. And I would just add that with one GSIB, we don't have, you know, the peer perspective.

And so it's really important to learn from others on what are best practices. And also to be an observer on, you know, one or the other additional crisis management groups, is I think in everyone's interest that we really bring together the best practice.

And yeah, so I guess that's what I would say in terms of opening remarks. And really look forward to a good discussion on this important topic.

MEMBER ERVIN: Stefan, if I could just jump in. As you know, I've got a little bit of

interest in this. I was in --

MR. WALTER: Microphone.

MEMBER ERVIN: An executive at Credit Suisse back in the aughts, so 15 years -- sorry.

Hi, Stefan, thank you for that. And as you know, I have a more than passing interest in this. I was an executive at Credit Suisse during the aughts, so a long, long time ago, just for clarity.

But read all this stuff with extraordinary interest. I think the Swiss have done some great reports on what happened. For example, the financial stability report that detailed the liquidity support that the SNB had to put forward was I thought extraordinary, basically priming the balance sheet of Credit Suisse and providing pretty much all the short-term liquidity needs of the institution during those last days, which I think is an important endgame to understand.

I think it's something where all the

resolution authorities I'm familiar with, possibly with the exception of the Bank of England, which is more integrated, have an interesting dance between the lender of last resort and the resolution authority. And getting that right is extremely important.

There was an external report by Mr. Paul Tucker that looked at the lender of last resort features in Switzerland. And although it was very constructive, I think had many attributes, also had I think some critical elements saying thinking through the extraordinary liquidity needs of our largest institutions is something that may not have been fully comprehended yet.

And I wonder if that's something that you feel is underway. Is the cooperation between the resolution authority and the central bank advanced enough in your view? And if you have more also any general ideas about how that's proceeding in the international context. Because

this is not a Switzerland only problem, that is a general problem for all resolution authorities.

MR. WALTER: Yeah, no, I think what's key is, I mean, there are three key players. It's the FINMA that's responsible for determining the point of resolution. It's the Swiss National Bank which is responsible for liquidity ongoing, emergency liquidity assistance. And then also, you know, providing liquidity possibly, you know, guaranteed liquidity.

And then there's the government, which may have to step in with guarantees. And so, all of these bodies are in an emergency council to, you know, to coordinate. And one of the topics that's, you know, being reviewed as part of the lessons learned is the collaboration and how to strengthen and make that more effective, you know, among the three entities.

The other topic you alluded to is making liquidity available. And so that's not something enough to just think about it at group

level, but need to think about it in the different entities, both domestically but also internationally.

And so one of the key -- the key elements of preparation is making sure that not just capital is, you know, is distributed in the right places, but that the capacity to raise funding is distributed as well in an appropriate way across the group.

And that's definitely something that, you know, is one of the key lessons learned and one of the areas of focus. And you know, in the CS, you didn't have, you know, the liquidity necessarily in all places where it needed to be.

MEMBER CUNLIFFE: Could I just come in on the -- so when you put the lender of last resort and the resolution authority into the same institution, you internalize these issues. You don't take them away, if I can put it that way. But you do come to an interesting point, which I sort of wondered.

And I remember some of the interactions between FINMA and the SNB prior to Credit Suisse. If you think about the public sector as a whole, it's quite difficult to tell depositors and others that this bank is now in resolution or whatever and it's safe and that you should fund it, but the central bank won't.

And that's where the central bank looks at its balance sheet and says I don't like the risk in this. And the resolution authority says well, we've taken it into resolution now, we've recapped it.

Because you know that if you take something into a resolution, if you don't go the UBS, they won't in the end. That the market won't lend to it on the Monday morning and the public sector will have to lend to it until the market gets confidence.

And I just wonder how in Switzerland you, so you sold that to some extent, the Bank of England is able to do that to some extent because

it gets a government guarantee. So there's the public sector backstop that sits inside the system.

But if you don't have all of that worked out in advance, you could spend a lot of time with the different objectives of the different players just creating a friction while liquidity is leaving -- is leaving the bank.

And the second point is once you, even if you have a public sector backstop, you need to distinguish that to some extent from ELA, because you're no longer an ELA to a going concern that's failing.

You're now in liquidity for something that's in resolution. And that requires to some extent the creation of a special instrument that recognizes this is not, you know, this is not ELA and this is not, if you like, a bailout.

And I just wonder how in Switzerland you're now going to organize that so that that's all set up in advance. Central banks I know can

be very prickly about their balance sheets. But to avoid these kind of objectives, which go -- basically the institutions have different objectives, how it goes in a crisis.

I'm not suggesting you put it all in one institution. You could have some interesting conversations inside the institution when you do that.

MR. WALTER: I think you hit on the key point. You need the capital, you need the liquidity, and in the extreme you may also need a public backstop for, you know, for this to come together on Monday morning. And you need strong coordination before you get to Monday morning in terms of the liquidity.

And you know, I think that is something which is, you know, one of the key focuses in the too-big-to-fail report. How to, you know, how to make sure that works as best as possible leading up to the, you know, leading up to the situation. And it's absolutely critical.

That's why there's this need for the legislation for the public liquidity backstop to provide the liquidity throughout the whole process, irrespective of which of the three, you know, approaches that, you know, that you choose.

So, yeah, you hit on the key issues. You have it internalized. There are many models of course out there how, you know, how these elements are, you know, are set up.

U.S. has another model, and you know, and has a process for how the decision is made, which is discussed I think nicely in the blue book for, yeah, for bringing those elements together, you know, in stress and what are the different considerations. And that's, you know, that's a topic for discussion going forward.

MEMBER CUNLIFFE: The only point I make is it does help to set it out in the purple book, in our case. Just in advance kind of how it will work and what the rules are and what the objectives are. Because it then is something you

can appeal back to when you go through this.

I'm not sure what color the Swiss book would be.

MR. WALTER: I guess it would be a red book maybe, with a little white cross.

MEMBER ERVIN: Stefan, if I may, there was also some interesting discussion, and it was reported in the FT, about the legal certainty around if you had to go into the TLAC stack, the bail-in bonds. Obviously, you imposed losses on the CoCos, which I think was very helpful in solving any risk of a capital problem.

But if you were to go into a full SPOE bail-in and in effect write, convert the bond structure into equity, that there might be some U.S. securities law issues. Have you been able to kind of work through that, now that we've got hopefully a chance to catch our breath, to make sure that's all been sorted through? Or is that still a process that's underway?

MR. WALTER: You're right, that is just

the cross-border certainty of bail-in is one of the key topics. And one of the key elements of that is the, you know, when you convert debt to equity, then you have registration and disclosure requirements.

And how those could be met over a weekend, versus the process. You need to go through an orderly process and whether there can be an exemption or not, and -- or other work-arounds is something which is still, you know, being worked on.

MEMBER COHEN: And I've got to say on this one, I actually think the Commission should be able to reach, without exemptions, without ad hoc decisions, a clear decision, which I think is the right legal conclusion that no further registration or disclosure is required. That it just happens.

Every holder of these bonds was told at the time what the possibility was. There are a number of law firms that gave opinions on this.

And I don't think any that did not. So, this really requires the Commission to step up to what I think is the correct legal as well as practical analysis.

MS. FUNGAROLI: I was given the responsibility of timekeeping in particular because our esteemed panel has been at work already for two hours. I wanted to look to the Chairman just to see.

We originally foresaw an additional ten minutes or so of discussion with Stefan. Would you like to take a break now and then come back to conclude? How would you like to proceed?

CHAIRMAN GRUENBERG: I was going to suggest if there are any -- we can take another five minutes if there are any other questions for Stefan. If not, we can just go to our break now. But I didn't want to cut the discussion short.

MEMBER HERRING: May I follow up on Rodge's point, which is a little troubling? It appears that the SEC was not part of the crisis

intervention. And I don't know this, I'm just conjecturing. Have measures been taken to ensure that the SEC is kind of on board with all of these things?

We don't usually think of it as a bank supervisory agency in the least, but it does make rules that do have an impact. And I wondered what changes have been made at the international level and kind of trying to anticipate these frictions before they become a real issue.

MR. WALTER: All I can say is you know, our focus is going to be, you know, that all relevant players are part of the crisis management group. And I think now with the reconstitute -- with the merger, we need to, you know, we need to look at, okay, who are all the relevant players for this new merged entity.

And I think, yeah, we need to play out not just the systemic aspects but the legal aspects as well, as best as possible beforehand. And do everything we can to have as much certainty

in place beforehand.

I do think it's fair to say that, you know, a lot of discussions took place also in the other, you know, in the Credit Suisse situation, and you know, everything was done to make that as viable as possible under the situation there. And also talking with the relevant people.

MEMBER TAHYAR: Just to be clear, because I really want to emphasize the point that Rodge made, and Rodge, you made it last year as well. Every single U.S. experienced capital markets lawyer was surprised by the SEC's interpretation.

So I think it's important that this group, and certainly last year the international representatives don't think that we're dealing with a binding law or a regulation, but dealing with a position that was suddenly taken that was a surprise. So it should be able to be solved.

MEMBER CLAYTON: Could I jump in? Just to say I agree. I agree with what Meg said,

I agree with what Rodge said.

CHAIRMAN GRUENBERG: Just identify.

MEMBER CLAYTON: It's Jay Clayton, a member of --

CHAIRMAN GRUENBERG: Yeah, Jay, please go ahead.

MEMBER CLAYTON: I agree, this is a pretty easy one to reach.

CHAIRMAN GRUENBERG: Jay, could you speak up a little bit? The sound is a little soft here.

MEMBER CLAYTON: All right, hopefully this is better. I agree, this is one where it's fairly easy to provide guidance by the Commission, as Meg said. But also going back to what Jon said, which is very important, that we're in a new era where, whether it's CoCos or something else, the capital markets are going to be part of any resolution.

And we should resolve these issues of securities distribution now, not in the heat of

the moment.

MR. TETRICK: Maybe I'll make two quick points on this. One --

CHAIRMAN GRUENBERG: And just identify yourself.

MR. TETRICK: I'm sorry, I'm Ryan Tetrick with the FDIC. One, this is an issue for a so-called open bank bail-in approach, where the bonds are directly converted to equity. And I'll just observe in the U.S. bridge bank approach, we don't have the same securities law issue. So that's explained in the paper, but it's worth observing.

But I agree the issues should be solvable. And I'll just note that this is an issue that's gotten considerable attention since the events around Credit Suisse. At the Financial Stability Board there's been a lot of focus on it. The SEC has been intensely engaged in those discussions.

CHAIRMAN GRUENBERG: If there was not

a keen awareness before last year's events of the critical role of securities regulators in these kinds of resolution situations, I think there's a keen awareness now.

Anyone else? Let's take a ten minute break and then come back.

(Whereupon, the above entitled matter went off the record at 11:00 a.m. and resumed at 11:13 a.m.)

CHAIRMAN GRUENBERG: Okay. We'll resume our meeting. I will say I think Stefan's presentation was a nice transition to our next topic. We heard about the Swiss effort. Now we can talk about the U.S. Let me turn it over to Art Murton to lead that conversation.

MR. MURTON: Thank you. Thank you. Yeah, we're here. We're going to talk about on this panel about our Blue Book that we put out in the spring. And I'm- going to be, we're going to talk about what's- in this and then also talk about get your guidance or advice on how we can

engage with market participants and other important counterparties, not only before resolution but in the moment to be most effective. So I'm- joined Ryan Tetrick, a Deputy Director in the Complex Institution Group, Betsy-Joanne Fungaroli, a Senior Advisor, Susan Baker, and Pen Starke, Deputy General Counsel in Legal.

MS. BAKER: Okay. Thank you all. As I'm sure you all - one of the key ways that the FDIC can support stabilization and resolution of a large complex financial institution is to set expectations in advance as we've been talking about so that when- stakeholders - stakeholders know what to expect. And when the FDIC can actually do what we've said we're- going to do, it hopefully will help calm markets in the moment.

In our 2020 SRAC, which was also in this room, we asked for key - for your feedback on key items that the FDIC needed to be more transparent about. To improve our understanding,

we discussed a list of key stakeholders who would benefit from transparency. -We discussed what they needed to know.

And the result of that work or the feedback into this is this paper which we published in April called the Overview of Resolution under Title II of the Dodd Frank Act. Oh, wow. We have slides. With this paper, we aim to help stakeholders by providing clear information about our Title II resolution plans, with an additional focus on U.S. GSIB resolution.

So the paper seeks to anchor expectations. And we hope that will support financial stability. We also want to make clear what will happen to key stakeholders.

Shareholders and creditors will bear the cost of the resolution, not the taxpayers. We want single point of entry means that the key subsidiaries will remain open and operating. And customers will have access to their deposits, and that we have plans in place for operational

continuity.

And we also hope that this paper demonstrates that the FDIC stands ready to undertake an orderly resolution under Title II if we're called upon to do so. And I will spend a few minutes talking about the content of this paper and what I hope to receive feedback on whether the transparency provided in this paper hits the mark. Are there other areas that we should be striving for more transparency about?

And there is a balance here between easy-to-understand language about this and just the inherent complexity of the system that we've built to address these issues. So I look forward to your feedback on whether we struck the balance in the right way. On the next slide, I'll start in.

The paper begins with an overview of the challenges of resolving a large complex financial institution. This is shown in this graphic down the left-hand side. And then

provides a detailed description of the resolution tools and policies and plans that have been developed to address those challenges.

The key elements of the policy and planning infrastructure that we explain in the paper include, obviously as we've talked about it a lot, the development of the single point of entry strategy but also the policies that are needed to make that strategy feasible. And that includes external and internal loss absorbing capacity, prepositioning of liquidity, the clean holding company rules, and the QFC stay protocols that are all necessary to making a single point of entry really work. We also highlight the benefits of Title I plans, which the GSIBs have developed,- - through which they've developed capabilities, governance frameworks, simplified organizational structures, and the things that they need to organize themselves for resolution under the Bankruptcy Code,- which is a hard standard as our colleague, Judge Drain, has

reminded us.

We've also covered ways that we've worked to address cross border cooperation, which Joanne is going to elaborate on later in the panel. So on the next slide, we go into, having set the stage with the -in the paper with the infrastructure that we've built, we start to walk through the set of actions that we would need to decide whether, when, and how to use our Title II authority. And this decision making is one area where the stakeholders have always asked us for more information and more transparency. And while we cannot give absolute certainty -- each case is decided independently and will be facts and circumstances dependent -- we do provide transparency on the decisions that need to be made, the key statutory factors that are involved, and importantly, the information that we would be relying on to inform our decisions. So in this section of the paper, we kind of break it down into three areas. First, we talk about

the contingency plans at the FDIC would be, the contingency planning that we would be doing as the firm in stress starts to implement its recovery plan.

Then we review how as the firm enters the runway to failure, we would be determining which resolution framework would be most appropriate. And the paper lays out the statutory factors here that the U.S. authorities would be considering, including whether the Title I plan for resolution under bankruptcy would have a serious adverse impact on U.S. financial stability and then also walks through, if we need it, the multiagency process we call turning the keys to launch the resolution.

If you don't know about key turning, there's a nice graphic in the paper. The third section of the decision-making process is confirming the resolution strategy. And I will not say that this is sequential.

How Title II would help, -the tools

that Title II would bring to the table, are part and parcel of determining whether or not it's the right resolution framework to use as well. So I think the important thing that the paper does here, that's a little bit new and forward leaning is that we clarify that for Title II resolution of a U.S. GSIB, with think the SPoE strategy will be most suitable for a wide array of potential scenarios. And I will come back to that in a minute-.

And I hope that -this paper helps to provide some confidence that the U.S. decision making on whether, when, and how we would use Title II authority is thoughtful, that it builds on data, planning, governance, and the policy infrastructure that we've built in advance. So on the next slide, I'm going to just spend, like, two minutes expounding on the single point of entry resolution strategy.

It sounds pretty wonky-.

But to me, I think improving public understanding

of how the single point of entry strategy works is one of the most helpful things the paper could do because as you all know, when you do single point of entry resolution, the material subsidiaries transfer over to the bridge and remain open and operating. And if people,- if markets, can have more confidence and more understanding about how that works, hopefully that will mean a smoother effort. And as you know also I think it's important to know that while the assets get moved over to the newly established bridge company, the shareholders, the TLAC holders, and other unsecured creditors are left behind in the receivership to bear losses,- and they need to know that.

And then also, I think the last part of this system that makes it work is that we have the OLF to help provide liquidity to the bridge if it's needed. So I mean, the beauty here really is that everything stays open and operating or the key aspects of the firm stay open and

operating and that customers will have full access to their deposits. And we hope that this will not only stabilize the firm but the financial system as a whole. So next slide.

This is the very, very quick version. This last slide is the last half of the paper which is really our meat, - the meat of our attempt to provide transparency about all the things that we've done and what our expected approach should be to implementing a Title II resolution. -We use the example of a U.S. GSIB.

So we hope that this detailed account of what we expect to do helps provide confidence that we've adequately prepared to take on this challenge. And we break it down into three sets of actions that I'll say happen at the same time. First is the launching the resolution packet, and that involves establishing the bridge financial company, appointing new officers and directors who like Tim Mayopoulos will be pulled from our prescreened CEO roster and then also starting the

claims process.

So that's the first bucket. The second bucket, although it pretty much starts also right from entry into resolution, is the things we do to stabilize the operations of the bridge. And so that includes moving capital and liquidity down to the bridge and from the bridge to the material entity so that the subsidiaries remain open and operating and continue to provide critical functions and services. And also, a key part of stabilizing the operations is our public facing communication which starts upon entry and which Ryan is going to talk about a little bit more later.

And then finally, the paper goes through the things we talk about, the things that we do to prepare the firm for exit of resolution. So we'll be restructuring the company to address the cause of failure, undertaking orderly wind down and restructuring processes. Our goal is that the successor entity or entities emerging

from the bridge will be smaller and less systemic than the failed GSIB was coming in.

We also describe in this last exit section how we would use our securities-for-claims process to return the restructured firm to private sector control. Now there is a lot of detail in this last half of the paper. I can't believe I got it down to one slide.

But I do hope to hear your feedback would be wonderful on whether the topics covered are enough or the right ones to instill confidence in our ability to undertake this if called upon to do so and what else we can do to improve transparency going forward. Before I turn it over to Joanne to talk about cross border cooperation, I just also want to give a word of thanks to all the people who worked on this paper. There were many.

And I hope that also gives you confidence that this is a group-wide effort that all of us are on board with. And this has been

a lot of work that has gone into building the infrastructure for making this happen if we have to use it. Thank you.

MEMBER HERRING: Susan, I realize this is a pretty minimal standard. But I think you produced a really good teaching document.

MS. BAKER: Thank you.

MEMBER HERRING: Because this stuff is very hard to present to a class.

(Simultaneous speaking.)

MS. BAKER: Thank you.

MEMBER HERRING: I did have a question about slide 21 which is simply because you're writing something very compact. But it ends with SPoE feasibility improved, a firm has sufficient resources to recap subsidiaries which leaves hanging the important question, what if not.

MS. BAKER: We talk about in the paper - as I mentioned, we did lean into single point of entry as our expected,- - we expect it will work in a wide range of scenarios. And the

firms are set up for that, and we have all the policy infrastructure in place to make that work. But if there's not enough to recapitalize enough resources to recapitalize the subsidiaries, obviously they can't stay open and operating. So we do talk about cases where SPoE would not be feasible in the paper. That's- not our primary situation.

MEMBER HERRING: Right, because it means something has --

MS. BAKER: Yeah.

MEMBER HERRING: -- gone quite wrong earlier on --

MS. BAKER: Right.

MEMBER HERRING: -- which could happen.

MS. BAKER: Yeah.

MEMBER HERRING: But that's sort of what undermines the whole thing. People will be wondering, do they really have enough resources? Does the FDIC really know enough to know whether

they do? What if?

MEMBER ERVIN: And I was just thinking at the time you move -- sorry, at the time you move things to the bridge, that strikes me as a key moment for that kind of communication because if you say these are open and operating and we'll capitalize, that's a big statement. And what communications you prepared around that moment to assure people that they're either in or that one or two of them didn't get the lucky ticket and are left behind.

MEMBER BERNANKE: A conventional wisdom is that this will work if there's one firm that's idiosyncratically in trouble but wouldn't work if there are a bunch of firms because of the effects at asset prices, lack of buyers, et cetera, et cetera. I haven't read this. I didn't get it, I don't think.

But anyway, do you talk at all about that contingency? That's my main question. Sometimes which I'm not quite sure of. In the

original legislation, I think there were limits on the amount of backstop liquidity.

And there were at least some people concerned that those limits were too low in certain circumstances. Am I correct about that? I may be mistaken.

MR. TETRICK: So -- oh, go ahead, Pen.

MS. BAKER: More money is always better, but yes.

MR. TETRICK: So the backstop liquidity is keyed to the asset size of the institution. And it's quite large. So there's two calculations.

One is the quick and dirty calculation. It's 10 percent of the balance sheet. The other is 90 percent of the fair value of the assets available for recovery which is a tremendous amount of money compared to the size of these institutions.

It should far exceed the liquidity needs. And that's the backstop liquidity. Each

of these institutions has to have Title I plans that preserve enough liquidity to get their resolution without a backstop that we then come in with a pretty tremendously large backstop. And that larger amount while the statute describes it as being available within 30 days, we would expect our peak liquidity needs are going to be up front. And so we would -our plan is to seek that larger amount going into resolution so that if we need it up front, it's- available.

MS. BAKER: And on the multiple.

MR. STARKE: Yeah, and even in the event of multiple failures, there is -- the liquidity is based on each individual institution. So there would be a fund created in each failure. So in theory, U.S. Treasury should be able to provide liquidity resources in multiple failures.

MEMBER BERNANKE: But multiple failures would have general equilibrium effects.

It would be affecting prices and a variety of things for the open financial market functioning, et cetera.

MS. BAKER: I think it's also important to consider OLF has the capacity to provide guarantees which may help.

MR. TETRICK: So I mean, I think there's a different point here being made than just liquidity. And if there are multiple failures as we learned last year, it's harder than a single failure to deal with it once. It's not impossible. But the purpose of the authority is to limit the cascading effects to other financial institutions. And if we're in a scenario where there's wider systemic effects, then other tools maybe need to be brought to the table that are beyond the capacities of the FDIC.

MEMBER ERVIN: I'm also hopeful you're not forcing these institutions to do asset sales. You're doing all this work on the liability side. So I think avoiding asset sales is one of the

important benefits of these types of operations.

MEMBER CUNLIFFE: Just a couple issues on Ben's point. It's got lost now. But I remember when Mark Carney headed the FSB. He made a speech in Singapore when the rules, the standards came out.

He basically said that if you're in a systemic crisis, you can't operate this system because so many other things are changing. At the same time, a credit has gone completely in the system. But it may stop the point at which you reach a systemic crisis and it pushes that point further off because you can stop the domino effect.

But once you've lost three GSIBs, then the structure is not going to work which brings me to the other point. Susan, I have kind of a huge sympathy. I read this -- I read the kind of -- not the shiny real copy, the kind of digital copy on the way over.

So on the one hand, you need to be

very clear with these blue books or purple books and set it out. And you have shown there is a process and it's ordered and structured. And you have to be all in that this is going to work because it's about confidence.

On the other hand, we all know that no plan survives contact with the enemy. And when you get to it, it's going to be messy and horrible. And I can understand when faced with that messiness and horribleness in Bern over that weekend they decided to go another route.

So I've always felt -- and we've never succeeding in doing this with the Bank of England. We tried but we couldn't do it. It's trying to get across somewhere in the introduction, particularly for the public, that there is no immaculate resolution of a GSIB. It's not going to work that way.

But you do have a process and you have these stages, et cetera. But when a GSIB fails, you have no good options. You only have least

worst options.

And this gives the authorities the ability to manage those for the public good. And what we did with the Bank of England, and I know why we did it, is we tended to suggest that we had this machine that we could switch on that would take a GSIB at one end and kind of bring ours to authority at the other. And I always thought we should temper that in the communication because when it is messy and there's things, you might have to guarantee all our insured depositors to stop a huge run and the like.

When it is messy, the confidence in the process can get eroded if you haven't explained in advance that you are actually dealing with a huge complexity here and don't expect the stages will follow the machine. But the tension I accept is you want to show that it'll work and you want to explain it clearly. But there may be room in the introduction which

is written in quite kind of state official language that there may be room in the introduction or elsewhere just to explain that we never want one of those things to fall over.

And we've taken preventative action and supervisory regulatory side. If it does, that's a huge problem. But we now have fair more options and tools than we had in the financial crisis to protect the public interest and just bring out the messiness a little bit without. It's not easy, but that would be my overall comment on this thing.

CHAIRMAN GRUENBERG: Stefan.

MR. WALTER: Thanks. Yeah, I also had the electronic version. The flight was long because of headwind. So I didn't just read the text but then started reading the footnotes when I still had a lot of time.

And I was looking at -- well, first I have to say it's really impressive, a really impressive document and really amazing work and

all the experience that comes into the document. But I wanted to make a link to one of the points I raised about when you have a situation when possibly the -- so you may have the resources, enough capital, liquidity. But the institution has lost complete credibility, say, in the market, business model, reputation, et cetera.

And there's footnote 32. It talks about SPE strategy supports the stabilization and the continuation of the material subsidiaries. And then later that you could do the immediate wind down for certain subs that are not critical to the - contribute to the value of the group. The question is what if the core subsidiaries are not valuable and contributing to the value of the group? How do you sort of adapt the strategy in that context?

MR. TETRICK: So agree, there's no such thing as immaculate resolution. And so we're going to have to adapt to the scenario that we encounter. I think the idea of single point

of entry is that it's a framework that allows a lot of optionality within it.

And that might be depending on the type of institution. It largely remains intact. It might be that the scenario requires certain things to be sold or wound down.

And it might be that the core is faulty in some way and it requires a longer term restructuring or a longer term wind down. We really just have to respond to the scenario. But we've, in the Title I planning process, required that institutions give us options.

I think we know this is a defined set of institutions, what the likely options are for -the different eight GSIBs that we have. And we'll just have to take the scenario that we get and respond accordingly. -And that might look different in different scenarios.

I think one thing that's really important, though, is that any resolution starts from the point at which something has gone wrong

and something has to change. So simply bailing in the TLAC and saying you're done is never going to be credible. Something has to change about the nature of the institution that addresses whatever the weakness was in the business model or whatever risk management lapses there were to have confidence in whatever comes out of resolution.

So we know there's going to be a material change. And that -- to some degree, we might not know exactly what those changes will be. But we have to have the broad strokes of that. Think up front so that there's a narrative about what's going to happen to the resolution process.

MS. BAKER: Okay. Joanne.

MS. FUNGAROLI: Thank you. I think to connect to the question that Member Herring asked about our- the- information that the FDIC would have as a firm is facing stress or runway or potentially failure, this next segment on how we

communicate with other authorities is particularly responsive to that point. As you heard Susan mention, our approach to resolution under Title II of the Dodd Frank Act assigns critical importance to cross-- border- cooperation for mitigating resolution challenges.

And to achieve this cooperation at the FDIC, we maintain communications with a broad range of authorities as part of our regular work. This includes domestic and foreign authorities, other resolution authorities, supervisors, central banks, market authorities, deposit insurers, and finance ministries. We work in business-as-usual to build and maintain our cooperative working relationships for crisis management preparedness, including by establishing Memoranda of Understanding, statements of cooperation, and other arrangements for information sharing across a crisis continuum and also in business as usual.

In crisis, communications with other authorities and other key stakeholders, which Ryan will talk about next, occur in rapidly developing, highly dynamic conditions and having the arrangements in place and the relationships to support them ex ante is a critical part of our work. Our communications outreach involves working directly with regulatory counterparts at different levels of our respective organizations. As you can see today, Stefan's participation as a special guest speaker and Sir Jon Cunliffe's participation as a former Bank of England Deputy Governor really attest to the materiality of those working relationships at the senior-most levels of our organization.

At the staff level, I can also say with confidence and from firsthand knowledge that we work daily with other authorities, both domestic and foreign on cross-border resolution planning and preparedness. Our communications work involves ex-ante development of an inventory

of potential coordinated communications for resolution execution. In addition, this planning work allows us to move quickly in an emergency, and I'll talk about a couple examples as we progress through our slides.

And we maintain this work in a multidimensional manner. So we really have two foundational anchors. Our work in a firm-specific context and then with authorities, so it's basically two prongs to the framework.

In a firm-specific context, we have as shown on the left side of the slide our work through crisis management groups and colleges of authorities. This work involves the FDIC both as a home and a host authority. There are a broad range of groups that exist to support this engagement.

First, there are colleges of supervisors which could be core colleges, global colleges. But the purpose of supervisory colleges is to facilitate information sharing

among authorities about safety and soundness of an open and operating cross-border institution. But those colleges have a central role to play in supporting crisis management response and the transition and the crisis continuum from business as usual to runway to resolution execution.

The FDIC's involvement in supervisory colleges is focused on the banking sector. And it is founded on our role as a primary or back up supervisor. Importantly, as part of this framework, we also have Crisis Management Groups and other configurations also exist in the European context such as resolution colleges.

CMGs and colleges exist most prominently for GSIBs and central counterparties, or CCPs, that are systemically important in more than one jurisdiction. The objective of these groups is to enhance preparedness for and facilitate management in resolution of a cross-border financial crisis affecting one or more systemically important financial institutions.

The members of CMGs have negotiated and adopted cooperation agreements which facilitate that firm-specific information sharing for resolution planning and in crisis management response across the continuum.

Our work on these firm-specific activities is part of our daily responsibility and includes cochairing the Crisis Management Groups for the U.S. GSIBs, all eight, and participating as a host in a significant number of the foreign GSIB Crisis Management Group activities as well. CMG members use our meetings to discuss firm resolvability. We share resolvability assessment information and criteria and potential mitigants to cross-border resolution execution challenges.

We also share important knowledge about national resolution regimes that would be implicated in execution. This regular engagement leads to building and maintaining working relationships among firm-specific regulators who

are core to develop operational preparedness for resolution execution, and who are in the core of resolution execution itself. We also can quickly pivot in the CMG context from regular activities to address, in crisis, response and failure planning, and we increasingly are practicing this transition, both as exercises and as fire drills.

As of today, the members of the CMGs for the eight U.S. GSIBs include 16 host authorities from a dozen jurisdictions in addition to the United States. We also are pursuing work on strategies to enhance firm-specific connections with authorities from jurisdictions- that are not CMG members, but that may be important to or impacted by a U.S. GSIB resolution. And that, I think, is an area work that Stefan also mentioned as an initiative that Swiss FINMA is pursuing. For the --

MEMBER REED: May I ask a question?

MS. FUNGAROLI: Yes, of course.

MEMBER REED: Do you include China in

any of this?

MS. FUNGAROLI: We engage with China regularly through our work at the Financial Stability Board. They have several GSIBs that are in scope of the discussions that occur as part of the annual resolvability assessment process reporting. But their planning is at a slightly different stage, and I would say that no U.S. authority is a member of a CMG chaired by the Chinese home authority at this time, to my knowledge.

I also wanted to make sure to mention that for the U.S. CCPs that are significantly present in more than one jurisdiction, the FDIC co-chairs Crisis Management Groups for three of those firms as well. We co-chair, with the CFTC, a CMG for Chicago Mercantile Exchange and ICE Clear Credit, and, with the SEC, for Options Clearing Corporation. We'll hear more about that work in the afternoon session.

Member authorities generally reflect

supervisory and resolution authorities of large members of the CCPs, other resolution authorities of systemic foreign CCPs, and central banks where products backed by their currencies of issue represent significant open interest at the CCPs. The objectives of the CCP CMGs are very similar to those of the GSIB CMGs.

The key difference is that they were largely established a number of years later than those for the GSIBs. And so, the work continues to really be in an evolutionary phase at this time. But the members of the three U.S. CCP CMGs represent 15 host authorities from 7 jurisdictions in addition to those in the United States.

So, needless to say, there's far too much to cover as a home authority to dive too far into our memberships as a host. But I just wanted to say that the FDIC participates in supervisory college and CMG and resolution colleges for numerous foreign GSIBs and CMGs and resolution

colleges for foreign CCPs as well. We participate, for example, as a member of the UBS CMG, which you heard Stefan discuss earlier today.

I'd like to just jump to the other anchor of our work in this area which is to maintain ongoing working relationships with other authorities, so authority-specific, firm-specific. I would say that our work that is authority-specific is an equally important dimension of our work to communicate with other authorities about cross-border resolution. And that work really could be firm-specific; it could be policy-related; it could be operationally-oriented; or, it could be a mix of any of those activities. The FDIC maintains working relationships through a number of standing working groups. You may have seen some of our public statements about the work of the Trilateral Principals Exercise, which involves ongoing work of the authorities from the U.S.,

European Union, and the UK to maintain a portfolio of work that evolves over time to build strategic elements to support cross-border cooperation for resolution amongst those key home and host jurisdictions.

That work is reviewed and augmented by regular meetings at the principals level to give input to staff and to maintain crisis management preparedness at the senior-most levels of the three jurisdictions as a permanent part of our mindset. We also leverage a network of contacts built through our engagement and various regulatory fora. The U.S.-EU Joint Financial Regulatory Forum, and the U.S.-UK Financial Regulatory Working Group are probably the two most prominent such dialogues.

Then we engage with other authorities through the Financial Stability Board and our work of the Resolution Steering Group. Our Chairman is the Chair of the Resolution Steering Group and is currently in his second term in that

strategic leadership role. We have a standing membership not only in the Resolution Steering Group of the FSB, but also in its sector-specific committees for banking, financial market infrastructures, including central counterparties, and the insurance sector.

ReSG leads the work of the FSB as the standard setter for resolution regimes for systemically important financial institutions and increasingly works on developing operational preparedness for resolution execution and through practices papers, workshops, and enhanced engagement, including with the FSB's Regional Consultative Groups. We use this forum to build or maintain working relationships with other authorities that are core to cross-border cooperation and resolution to build a common understanding of resolution issues that cross borders, potential strategies for addressing them, and expanding our reach. Tim asked earlier, I believe, about consideration given to

banks that could be systemic in failure that are not GSIBs. And I just wanted to mention that the ReSG, also in the banking sector increasingly is picking up that thread of work as on the heels of 2023 lessons learned.

For example, we're now moving forward with work to build out a practices paper on transfer tools, on bridge banks, and P&As to be able to share that knowledge with other jurisdictions, including those who are not necessarily FSB members. We got a lot of appetite for that actually from those jurisdictions. But I think, in sum, our work in the Resolution Steering Group allows us really to build the relationships to pick up the phone, call counterparts in an emergency, explain the issue at hand, and bring in the coalition of the willing to support a response, whatever the issue is at hand. In Silicon Valley's failure last year, Tim may recall that really was a capability that we brought to the engagement.

We worked quickly to work not only with the bridge bank, but also then with the foreign regulatory counterparts where the failed institution had a presence in order to bring them into the dialogue to figure out what the issues were and to try to make that connection with the bridge bank to support the transition from failure to bridge and then into exit. Shawn Khani mentioned in his remarks earlier that the receivership also had foreign exposures that we worked through on the heels of the sale of the SVB bridge bank and the parts of the institution that were not purchased by the acquirer. In that regard, I think Pen was going to mention maybe one aspect of our close work with the German BaFin in that case.

MR. STARKE: Yeah, I think this is a great example, the importance of cross-border coordination. As Betsy indicated this morning, we had received an IDI resolution plan from Silicon Valley. We really hadn't had time to

engage with the firm or cross-border.

But we're aware of their international contacts. When we sold the bank, in order to maximize value, we gave an option to the acquirer whether or not to pick up the international aspects. It did not pick them up, so they were left in the receivership. Because of the plan, we're aware of them.

One of them in Silicon Valley had an office in Germany. It was a loan production office. And while we hadn't engaged, Joanne and her group have a long-standing relationship with BaFin, the German banking authority.

So we had that connection. So we immediately engaged with them, involving the FDIC, making clear to BaFin what the situation was with the office, what the receiver was planning to do, and how to handle it. Given our work, BaFin recognized the need for recognition of the resolution in Germany.

And recognition is a process whereby

the foreign resolution authority enacts something that allows the resolution to become effective and enforceable under local law of the host jurisdiction. The recognition generally turns on the consistency between the regimes and the notion that what's being done in the resolution would not violate local public policy. So given the work we've done with BaFin, we're able to move relatively quickly.

And ultimately, this led to a recognition order issued by BaFin that helps stakeholders understand the legitimacy under German law of FDIC receiver's resolution of SVB and allowed us to sell the branch assets in Germany in a way that maximized value. So even though we weren't able to plan specifically about Silicon Valley Bank, the relationships that we'd established made this a fairly successful transaction. Joanne.

MS. FUNGAROLI: And then I would just say that a key message that we had for foreign

host authorities in that case was the priority that we gave to the orderliness of the handling of the situation as best we could under the circumstances. And I think that our ability to communicate and the ex-ante relations that we had built with regulators involved really helped support that objective as best we could in a very rapidly changing situation. I would say then just to conclude that our work also reaches far beyond what I've just described for the FDIC at large.

The agency is a significant leader in the International Association of Deposit Insurers. That work expands our reach to a number of jurisdictions and authorities beyond the core that I just described and, as well, our engagement through the Basel Committee facilitates our continuing relationships that may need to be called upon in ways that we don't necessarily know at the time during the planning phase but may encounter at the time. So, with

that, I would like to hand it off to Ryan, I think, to walk you through our delivery of communications.

MR. TETRICK: All right. So we've put out the paper. Susan walked you through it. Joanne has talked about some of the preparatory work that we do.

With this session, we want to think about what happens when we actually have to apply this plan. How do we deliver communications at the time we resolve a GSIB.

The pattern of the next few slides is who, how, and what. So we'll start with who we need to reach here on slide 25. And then we'll talk about the process for communicating to them. And then I want to focus in on what we'll actually say, what the message is to these stakeholders in the GSIB resolution.

While a single point of entry resolution hasn't yet been tried, the concept isn't that complicated. At least that's the

intent is to simplify the process. But given the size and scope of a GSIB's operations, by communicating clearly and quickly to the full range of stakeholders pictured here is going to be a real challenge.

These institutions, some of them have millions of customers, many thousands of employees, and operate in over 100 countries. So while we've represented the stakeholders here in four groups, each needs to be reached immediately upon entry into resolution and through a range of channels with some different focal points on messaging to these different groups here. And each of these groups is essential.

So it might not be right to say that any one is more important than another. But what we'd really like to focus on today and get your reaction to is how to reach customers and counterparties of the institution. We know in a GSIB resolution it's not going to be immaculate, that parties are going to be already pulling back

if not outright running. And instilling some confidence in the customers and counterparties of the institution will be key to stabilizing the bridge, to stabilizing markets, and to achieving an orderly outcome.

MEMBER REED: Could I ask?

MR. TETRICK: Yes.

MEMBER REED: Why is it you don't list the Board of Directors of the institution? You talk about the executive management and its committees.

MR. TETRICK: Yeah.

MEMBER REED: It sounds to me like the Board is an awfully important group of folk.

MR. TETRICK: Certainly. Now as a function of placing the holding company into receivership --

MEMBER REED: You get rid of them.

MR. TETRICK: -- the Board will dissolve. So part of what we have in our executive search pool is we would be placing not

just a new CEO but a new Board. Now maybe some of the Board members, if they'd come in recently, maybe there's a reason to retain some of them.

MEMBER REED: But --

MR. TETRICK: Certainly, they have a lot of perspective that we'd want.

MEMBER REED: Well, not only that, but they're going to be important communicators of what has happened. And I would simply make sure that they were communicating a message that reflected your priority.

MR. TETRICK: That's a great point. And maybe that's something for us to think about more is how we can enlist them in this process. All right. So turning to slide 26, it's a little bit on process here, how we reach all these parties.

We'll need to be prepared and very active. And most critically, we'll just need to heavily leverage the personnel and capabilities of the institution that we're resolving. So on

the left hand side, we've done a lot on the peacetime planning here.

Importantly, the Title I plans are all required to have a crisis communications plan that we would plug into. We learned in the 2023 bank failures that was very important for us to have a capable crisis communications advisor to support us, to support bridge management. We have taken some of the lessons that we've learned from those events and really beefed up our Title II communications playbook with template materials and talking points and scripts that we would adapt but are ready to be deployed.

And then Joanne mentioned some of the work that we do on a cross-border basis. And some of that is exercising. And I would just observe that the principal- level exercises that she noted that are held every couple of years.

We always have communications as a key component of that. We game out what we would do in terms of recapitalization liquidity. But it

kind of all comes back to turning to the principals and asking them what would you say as a principal upon entering into a GSIB resolution, and how would you support stabilizing the wider financial system in doing so.

I'd like to come back to outreach. We've done outreach with some parties in advance. We are doing more. We could do more. And it would be good to hear from this group where more attention might be needed.

In the middle of the slide in the runway, we'd be taking all of this planning work that we're doing, tailoring it to the scenario encountered, and starting to engage with the institution itself, with our advisors, with other authorities. Joanne talked about the Crisis Management Groups. Those would be very active in the runway, and a portion of that would be planning for communications that we would deploy upon entry.

And then upon entry, again, a lot has

to happen simultaneously. And we know that GSIB resolution is going to require principals from authorities to be very direct and visible in their messaging. And that will need to have a lot of information that we publish immediately, Friday night, that's available for people to turn to.

Press releases, press conferences, also a financial institution letter that explains what this new -- it's an entity that's going to sound exotic, a bridge financial company, what it is and what it means and how other parties can continue to engage with it. And then some basic financial information, at the very least, some basic financial information, key metrics about the institution, ideally, a basic balance sheet that just shows that the group and its subsidiaries have been recapitalized or that there's more than sufficient TLAC to do so. And we'll need to push all this messaging to and through the institution, starting with messaging

to staff, what does this mean for them, why should they stay on and support the resolution.

We'll need to provide key messages for all the personnel who are engaging with customers and counterparties, do's and don'ts, talking points. We'd expect a series of distributions and calls to different key client groups that are tailored to them, again, in coordination with the institution. And all of this coordinated with FDIC communications office, our advisor, the communications team at the firm to make sure that the messaging is going through all channels.

Press release, proactive and reactive, social media engagement, websites, call centers, all of that is consistent. So that's the how. And let's turn to slide 27 and talk about what we would actually say. And we'll start here --

MEMBER BERNANKE: Just to make the point --

MR. TETRICK: Yes, yes.

MEMBER BERNANKE: -- that you have other actors in the government like the Fed and Treasury and so. And you need to coordinate what they're saying as well, which is actually not that easy.

(Laughter.)

MEMBER BERNANKE: Some nightmare of mine.

MR. TETRICK: Well, and I mean, to that actually, I think we'll talk about this a little bit on this next slide. But Treasury and the Federal Reserve and the SEC and others are engaged in these exercises that we have around GSIB resolution, members of the Crisis Management Groups. And there's probably some natural roles that fall out, and we've thought about what the communication is at the time. So I'll actually get to that here.

So starting at the top, the goal of all this is to promote stabilization. We know we're starting from a point where there's

uncertainty and uncertainty among staff. And there's probably wider effects to the financial system.

There's probably similar situated institutions, even as we saw last year with Credit Suisse where there was some inference of concern by other institutions. And all of that, we'll need to address. So, starting at the top, at the principal level, some things that U.S. authorities are going to need to say and expect all the key turning authorities, Treasury, the Federal Reserve, the FDIC to be involved here.

And it's just how the institution got to this point, what the cause of failure was, and why Title II is the appropriate authority to address it. And then what the condition of the broader financial system is. And if necessary, anything that's being done to address the wider financial system.

And even if it's not necessary to deploy additional tools, just observing that

additional tools are available can be very helpful. So that would be something that those first points are probably more for U.S. Treasury and the Federal Reserve than they are for the FDIC. The FDIC would need to speak to the resolution process.

And the second sort of bucket of bullets here, some of the things specifically that we would need to address, one is accountability, that the senior-most officers have been removed and that shareholders and creditors are going to bear the cost of the resolution, not customers and counterparties at the subsidiaries. We really want to focus on our messaging at this time on stabilization more than accountability.

But addressing accountability up front we think is an important complement to being able to deliver very strong messaging on the stabilizing actions that we would take. And of course, replacing at least the senior most

management we think is important to instilling confidence in the resolution process as it was with the bridge banks last year that there's new management in place that is credible and can run the bridge through the resolution process. I take your point earlier, Tim, that we want to retain as much of the talent as we can.

I think that's our bias. And the focus this time is really on stabilization. But it's just not credible to run the process with the same CEO that was there when the firm failed.

MEMBER TAHYAR: I want to pick up on Jon's point because you might want to add to this. You're going to have a new Board which -- and I think the general thought has been the new Board would be, to use a British phrase, the great and the good. And so those would be people who could be out there in the market and who would be credible.

And then I think what we saw on the bridge banks and what's expected is the CEO, the

CFO, and probably the CRO all just automatically have to go. But I guess my question is let's suppose the problem is a rogue trader or the problem is in the credit card operations. And then you've got the member of the executive management team who is doing commercial real estate which wasn't part of the problem. I'm kind of assuming you'll be making -- it's not going to be immaculate. But you'll be making judgments about keeping who you can keep to keep the institution running while knowing kind of who is in the center of where the problem was.

MR. TETRICK: I think that's right. Part of this will come down to the new management that we bring in. We bring in a new CEO, who do they feel is important to retain. And there's going to be some judgments to make about who needs to stay. But I don't actually know that's necessarily the case that all of the positions you mentioned will necessarily need to go.

MEMBER TAHYAR: Understood.

MR. TETRICK: I think it depends on the situation. And even if some of those individuals aren't retained, I think that they clearly will have a lot of very valuable information about the institution. And the new management that we bring in will want to speak to them to gain their knowledge.

MEMBER TAHYAR: And the new CEO needs to have a team. And the statute as I recall gives you an enormous amount of flexibility here.

MR. TETRICK: I see both hands up and smiles on the screens.

(Laughter.)

MEMBER CLAYTON: Just a couple of observations from Jay Clayton on this and good points. The Board of the great and the good that would come in as replacements --

CHAIRMAN GRUENBERG: Jay, you're a little hard to hear. If you can speak up.

MEMBER CLAYTON: I'm trying here. The Board of the great and the good, I think you need

people ahead of time who are fully vetted and ready to go. The vetting takes too long to do it in real time.

And then the other thing is I don't think that there should be a big reliance on former Board members. They're really not going to be a -- my experience is they're not going to be available to you. You're going to get better continuity from the accountants and the people in those places who are going to have to stay than you will from former Board members.

MR. TETRICK: So maybe really quick on Board members ahead of time. So as part of our executive search program, we're also identifying Board members that we would bring in. And so we would need to bring in at least five Board members.

Even for the bridge banks last year, we were identifying Board members. It just happened to quickly and the bridges were of such a short duration that we didn't in place a private

sector Board. But had Silicon Valley gone on for any longer, one of our next steps was to put in place a private sector Board that we had already identified a set of individuals that we think could've been suitable. So I think that's really important and that's part of our planning in advance. I see Judge Drain wants to comment on this.

MEMBER DRAIN: I want to emphasize that when you're communicating, particularly to the public, but also the customers, the parties that deal with the bank, not depositors, but the customers and the subsidiaries. Focusing on who's coming in at the management level to solve this problem to my mind is key. The regulators are clearly doing their job, and that's an important message.

But when you send the message to the markets, you're going to be focusing on people like Tim Mayopoulos. It's very hard for a Congressperson to criticize Tim Mayopoulos. It's

very easy for them to criticize a regulator. It's less hard, put it that way. And that human focus is key to retaining confidence.

MR. TETRICK: Taking on the brunt of Congressional criticism isn't our only goal. But I know Gary Cohn wants to come in.

MEMBER COHN: Yeah, so let me make two points, I think. First, one is I think your assumption is you can always get to Friday night. I would take that assumption out because the bigger the bank gets, the harder it is to get to Friday night.

So our history says you've been able to punt these things to Friday night. If this thing happens on a Tuesday, I think it's a lot different than what happens on Friday and you get Saturday, Sunday. So that would be the first point I would make.

Second point I would make is, if it's a Tuesday or Wednesday or Thursday when you make the announcement, that's the relief moment.

Like, once you've taken over and you put it into Title II, that's the thank you moment. The real problem is everything leading up to that.

And so far, everything leading up to that has been Saturday and Sunday markets for the most part have been closed. So I think you have -- in many respects, you have to recalibrate a live market scenario where this is going on. Because I think if you don't have that assumption, you're going to wake up one of these times and it's going to be a different set of scenarios.

MEMBER ERVIN: And maybe if I could just come in to amplify one thing I've been thinking about through this presentation is the risk of leaks, the risk that you get wrong footed. And the preparations and the team building you need to do, working across multiple regulators, for example, being able to spot in real time. To date, we've been lucky. I think, for example, in the Credit Suisse case, given the outreach that

had to be done internationally, I was shocked there was not an earlier leak that something like that was going on. But I think some preparations around that for a possible Tuesday disclosure of something awkward would be very important to have in the toolkit.

MR. TETRICK: One of the advantages of SVB is there was no risk of leaks because it just failed overnight.

CHAIRMAN GRUENBERG: There was no time to leak.

MR. TETRICK: But it's a constant concern. And I think authorities are always calibrating how wide is the circle of trust in terms of who we're bringing in and planning. But it's a challenge to get that balance right.

I think one of the things that we try to do to mitigate against that is just have - our philosophy is to have an appetite for false positives. So we're doing planning even when institutions are healthier, there's a relatively

minor risk. And maybe that mitigates a little bit against the fact that we're planning is a concern. But it's- a challenge for sure.

MEMBER COHEN: Ryan, another question on communications. This sounds like a very well thought through package. But I think another critical communication on that first day will be with the seven other GSIBs, say, about themselves and say, about the bank which is now being resolved. And I don't know how much planning. Maybe it's implicit in what is here, thinking has been done planning about that.

MR. TETRICK: It's a great point. And one of the places that I think we wanted some input on was where we should do more outreach. And I think with the GSIBs on how a resolution of another entity would affect them and what they'd want to hear from us. We'd be working across the authorities I think on coordinating that engagement with the Federal Reserve and the OCC and others who have a big supervisory presence.

CHAIRMAN GRUENBERG: I just want to come back to underscore a point that Judge Drain made. I think in retrospect from the bank failures last year, there was no more important decision that we made than in the selection of the CEOs to take over the failed institutions. And we had two highly credible CEOs, both Tim and Greg Carmichael, the former CEO of Fifth Third.

And I'll tell you it didn't come to this with First Republic. But we had another individual of comparable credibility available to take that over. And I do think one of the big improvements we've made was prior to those failures last year, putting in place a pretty highly developed process for identifying individuals who would be prepared incredible to serve this role.

It's not a huge universe of people. But we were able to identify quite a few. And having them available on short notice to do that is... - I think it was also pointed out their

communication, their role in the communication is as important or more important than what you might say. And the simple stature of that individual I think makes a big difference in terms of the perception- of the resolution process.

MEMBER MAYOPOULOS: I'm curious how you're thinking about the time horizon giving rise to a failure. SVB failed literally overnight, right? But going back to something Gary was saying earlier, the market is going to be telling you that one of these institutions -- one or more GSIBs is approaching failure.

And so it's almost as if you need to get ahead of it much earlier than you would in the case of, let's say, an SVB or Signature. And I'm curious as to whether you agree with that because obviously nobody actually wants to put a GSIB into resolution. But it does seem to me that the market is going to be sending lots of

signals to you about a potential failure. And you're going to need to be able to, like, accelerate all of this process that much faster.

MR. TETRICK: Agree with that. One of the charts that we have in the paper shows that we expect to be doing Title II planning at the same time the institutions initiating it to a recovery plan, at the same time it's planning for its bankruptcy plan. So we'll need to have an appetite for a false positive.

The thing that's going to be difficult is you don't know when or if it's actually going to fail. And we have to have an appetite to start preparing before it does. With the GSIBs, one helpful feature is that they all in their Title I plans have lots of triggers and governance mechanisms for pushing them through the resolution process.

So that's one thing that we have that we don't have for smaller institutions that we can key off of. But it's going to vary. Credit

Suisse, you could see that they were stressed for a long period of time.

You couldn't hope for a longer runway than we had. We had the fall. We had the spring. That was a pretty good amount of time to plan. SVB is the exact opposite.

And the events from last year, it's got everybody focused on the fact that we don't control the timeline. We need to plan for more truncated timelines. We need to be prepared to initiate our planning earlier when we see that there's some indication of stress. But we don't know what the timeline will be.

DIRECTOR HSU: Just maybe two other groups to think about in terms of communications, rating agencies and external auditors. Because I know in prior instances, they can be wildcards in terms of the information environment. The other is the host authorities I think are quite critical because a lot of folks are going to be looking to them.

I just think through the counterfactual if Option 1 had gone for Credit Suisse, how much communication we would have had to do in the U.S. in coordination with FINMA and the home authorities? Because silence will be interpreted badly. And yet pressure to -- that communication is going to be very, very tricky for any host authorities.

And I think for those of us who have been through 2008 and other crises, there's a certain kind of muscle memory from some of these as we move further. And there's kind of new entrants into positions in these agencies. I think that may present certain challenges.

I look around the table. Like, we have had these discussions. I can think of specific instances whereas I think as we get further and further away from some of these international instances, it may be a bit trickier to do.

MR. TETRICK: So maybe I'll continue

by taking up that point. Some of the other points that are here about financial information and what the plan is for restructuring, we've touched on a little bit. And I'll actually come back to it on the next slide.

On host authorities, I think Joanne talked about all of this coordination work that we do in advance on an ongoing basis. And we've talked about how we would activate a Crisis Management Group. All of that activity I think really has one key goal which is to put the host authorities in a position upon entry into resolution to say that they've been coordinating with -- and I think as you say, not silent.

They need to have join announcements with us, that they've been coordinating with the U.S. authorities, that the operations in their jurisdiction can continue to operate without disruption, that there won't be separate resolutions, and that the single point of entry strategy is in the best interest of their local

stakeholders. And so we need to put them in a position by demonstrating there's adequate resources and that we have a plan to be able to say that. And then, of course, new bridge management will need to be visible at this time as well.

Their first task is to speak to the staff of the institution. Ideally at that time, to speak to retention agreements and the general plan going forward. It'll be important that the new CEO is also messaging to customers and counterparties that the bridge is able to conduct business and meet its obligations. And like the FDIC, the new bridge management will need to speak to the path through resolution, at least in a general way and provide some sort of business narrative, what the goals of the resolution process are and what the results might be.

MEMBER CUNLIFFE: So can I just take you back to the U.S. authorities --

MR. TETRICK: Yes.

MEMBER CUNLIFFE: -- and the stabilizing actions? So the hardest things is how you stop the run basically. And there you hope the insureds are convinced. But you are about the uninsureds. And this comes back in the U.S., the systemic risk exception.

But yet we have this issue. First of all, stabilizing actions should be a U.S. -- joint U.S. authority message, not an FDIC message. Because you're really speaking to the central bank and the public sector backstop going back to what we talked of before. And it has to be very convincing in that initial -- we could do it with a GSIB in that initial period.

And that'll matter internationally as well. And I would -- well, I think it's buried in conversion of TLAC. Obviously, that's for the FDIC. But use of the OLF and the liquidity issue, I would kind of -- you have to decide very early on whether you're guaranteeing all depositors or whether you're not.

And the worse thing is when you say you're not and then it turns out that you are. But that's how that -- and that clear message up front is hugely important. And getting to that point is hugely difficult because it does involve coordination.

So I'd kind of put that front and center in the message from the other authorities. Because if you get that communication wrong, then the whole thing will just become much more difficult. And you'll probably wind up doing it anyway. But it will look as if the resolution is failing.

MR. TETRICK: That's very helpful. And I think we'll take some of that into account or all of it into account. But I think some of it's addressed a little bit on the next slide too. So thank you for pushing forward.

All right. So all of that was intended to be backdrop on the broad messaging. And then we want to drill down into customers and

counterparties. While FMUs and trading counterparties are kind of last on the page here, we actually think that those might be some of the most challenging.

And so I would be particularly interested in your views there. But let me quickly address investors. These are the people who are -- as we've mentioned repeatedly, are bearing the cost of the resolution.

That said, when we've talked to TLAC debt investors, we've consistently heard that they'll be looking for whatever reliable financial information is available so that they can price their claim. And we think being able to provide some information at the time of entry is in the interest of markets and that we would seek to do what we could. Also, these are creditors that accustomed to having a more significant role in a bankruptcy context and a restructuring.

And this is going to be different.

This is an administrative process. But we're considering ways to allow for an appropriate level of engagement through the resolution process as these ultimately potentially be the owners of what comes out of the resolution process. Traditional banking customers are, of course, tremendously important and represent just a huge number of people, certainly so at the universal banks. And here able to reach this vast number of individuals, again, all the published material that they talked about earlier, pushing that through the institution and using the institution's capabilities is really the only way to do it.

And then specific messaging, so on the point about depositors, I think we'll need to be clear that in the single point of entry resolution, the insured depository institution isn't going into a separate resolution and depositors' money is safe, all of depositors' money is safe in a single point of entry

resolution. And then it'll also be important to be clear that there's no confusion that, again, the bank is still open and operating and all of the activity that it could conduct before it went into resolution, it can continue to conduct out of those subsidiaries during the resolution process. And -- yes?

MEMBER HERRING: Just a comment about retail customers. Sad though it is to admit, I think it's essential that the FDIC have a specialist and internet communications watching X or Twitter and Reddit and a whole variety of places where these rumors get amplified and started. There really needs to be some thought given to unfortunately the way retail customers primarily receive information these days.

MR. TETRICK: Absolutely. And preparing for this are Director of Communications, Amy Thompson actually flagged for me that the social media engagement isn't just proactive. But we've got some experience

for different types of events, combating rumors and misinformation and getting outside support to do some of that. So I think that's a point well made.

MEMBER MAYOPOULOS: On that point, have you thought about, like, who are other influence people who can help guide consumers? We live in a world where, for better or for worse, many people don't trust the government. They don't trust traditional institutions.

But they do trust other people like these so called influencers that I don't really consume. But a lot of people do. And so it just seems like that's potentially a valuable thing to think about as something to draw on.

MR. TETRICK: Sure. That's really helpful. All right. Corporate banking customers, you expect there'd be direct outreach with key clients starting over resolution weekend. So then turning to FMUs, so FMUs are a special case.

And the goal here is to maintain membership, reduce financial stress on the institution. There's a discrete set of key financial market utilities that each GSIB has been required to identify as part of its Title I planning process. And they've been required to develop FMU playbooks to enable continuity of access in the context of resolution that take into account each FMUs unique rulebook.

Those would be activated. We'd be plugging into them. When we've done outreach with financial market utilities on Title II in the past, we've heard consistently -- and I think the GSIBs have heard this when they've done their own outreach that they're going to want to hear from the same points of contact that they have at the institution that manages the relationship with the FMU immediately over resolution weekend.

And in Title II, we've been told they're going to want to hear directly from the FDIC as well. And then kind of bottom line is

that they've also told us that the institution is going to need to demonstrate its ability to meet any additional margin and pre-funding requirements Monday morning on the availability. They will also help demonstrate that we're able to do that, but that's sort of what it all comes down to. And then in talking some of the discussion about coordinating with other authorities, coordinating with FMU supervisors and the run up to resolution, the importance that there's complementary messaging from them when we go into resolution too.

MEMBER TAHYAR: So another group you might think of, Ryan, is what I'll call dominant third party vendors because we focused a lot over the years on FMUs. But perhaps payment processors, the major tech companies, GSIBs are going to be less reliant on core processors. But they do have third party tech and kind of core processors. And I think the experience of 2023 is that some of those dominant vendors needed

special attention.

MEMBER LA SALLA: Could I just weigh in on this a second too because I think this is important. And I'm thinking about it from a standpoint of GSIB going down, the knock on effect, the domino effect to the FMUs. As you said, different types of FMUs.

But the FMU by its nature is going to want to protect the industry it serves. They are going to move very quickly. The machine will turn on faster than you can imagine which means communication and clarity is paramount because they're going to protect their client and they should.

So they will move more quickly than you think. So I'd put a finer point on this idea of having a clear crisp comms plan to the FMU so they can make the most informed decisions. Because I think we said it earlier, the market is going to move and the FMUs will have to react to that as well. So I just would sort of circle

that one as something that probably needs more of a conversation.

MR. TETRICK: Noted.

MEMBER BERNANKE: This may not be true in the new regime. But historically or in practice, most common resolution method is acquisition and hold by another firm. And at what point in a more formal structure is their search for a potential acquirer partner and how do you manage that information flow?

MR. TETRICK: So part of the premise of single point of entry for the GSIBs is that the traditional approach just isn't available because you're unlikely to be able to find a suitor. You certainly can't rely on that. Now again, single point of entry allows for optionality within it.

And it might be that there's parts of the institution that wind down. There's parts that get sold to other parties. Or there's a core that gets sold at the end of the process.

Now it allows for it to be spun back off. But finding an acquirer for parts or for a large portion is a possible outcome. I think it just -- it's probably -- we're not planning for that to be a day one solution for these institutions. But it's possible that could unfold during the resolution process.

MEMBER REED: Have you looked at the possibility that the reason for the failure is a massive data processing collapse so that you're dealing with an institution where you don't have much of an idea of what's going on and the customers don't know if their money is there or not?

MR. TETRICK: Yeah. That's a great and terrifying question. And the FDIC and in coordination with other authorities has done a lot of work on cyber incident response, different types of cyber incidents, including those that might affect large institutions and lead to their failure and looked at the range of tools. Now

the tools that we're talking about today are financial restructuring tools.

They're not tools that can directly address a cyber incident. And so we've looked at what are the possible scenarios we can be dealing with. What are the most likely types of cyber events or other operational events that could disrupt an institution. And if it happens within a single point of entry resolution, how are we addressing that? But it creates a lot of other complications and it's a whole other topic that maybe we should come back to in SRAC at some point.

DIRECTOR HSU: One thing that we're going to have to think through is in certain crises, there's certain price signals that everyone tends to focus on. I think this kind of ties together maybe Tim's point and Frank's point. In ’08 it was CDS spreads.

Everyone focused on the five-year CDS spread. That kind of drove a lot of the

behaviors. Last year, it was just share price. Here, once you take a firm into SPoE, there is no share price and there is no CDS spread.

And then the question is like, what signal do counterparties look to, to provide that confidence to say it's okay to trade with such and such entity. And then you've got the compound problem contagion wise is that for peer GSIBs, their CDS spreads are going to blow out. Their share prices will take a hit.

But then is there a different signal that can provide the confidence to say, well, if they were to go with SPoE, their ops subs are also going to be -- I think this is -- we haven't quite figured out what that key signal that everyone will look to that is credible that will be seen as not something that we are promoting but that market participants can then utilize. I don't know if we've -- this is kind of new ground. I'm not sure we've quite gotten there yet.

MR. TETRICK: That's a really

interesting point. And the TLAC bonds will still be trading off market. So maybe that's one place that you can turn to. But it's an interesting point.

MEMBER COHEN: So let me, because I think it is a great point, ask would it be feasible -- and this goes back to the rating agency point as well -- to do new issuances quickly into the debt market so you have somebody showing real confidence in the bank and whether that's other banks, private credit, combination, somebody else. That's how I think you might restore it. Just one other quick point if I could. On the rating agency which I agree 100 percent with, this has got to be more than just a big three because the deposit rating agencies will also be a cue if the deposit ratings are downgraded. That's a real problem.

MR. TETRICK: Very helpful. So maybe just to finish off with trading counterparties. These will be also a challenge and critically

important, especially as most of the institutions' trading operations have a solvent wind down of their broker dealers as part of their resolution plans. A considerable amount of attention has been given to those solvent wind down plans in the Title I process.

They are very detailed in terms of projecting the resource needs that are required to carry out the plan. You have detailed segmentation of the portfolios and a breakdown of how those would run off over time. So those would be very helpful to turn to.

Here again kind of the bottom line is being able to demonstrate that there's more than adequate capital liquidity to keep the entities open to carry out a solvent wind down. And then there's some other points that I think are important to emphasize. So I mentioned the financial institution letter that we would put out.

Some points will be really important

here to trading counterparties are just reemphasizing these are the same legal entities that you had your positions with before they failed, the same contracts. And that's different than the bridge banks last year. There are a lot of operational questions because you had a new legal entity here.

That won't be the case. And in some sense, that'll simplify things. And then we'll need to remind everybody that there are statutory and contractual stays from immediately terminating financial contract positions just based on the event of resolution.

There's a Title II stay. There's been revisions to contracts through the resolution stay protocol. And reminding everybody that those are applicable would be something we need to do at the time.

MEMBER HERRING: You mentioned winding down a solvent entity. It reminds me way, way back when they were trying to wind down the

securities subsidiary of Drexel Burnham and Lambert. And it was quite visibly very solvent.

But it was necessary I think in the end for both the Bank of England and the Fed to guarantee during the clearing process that the other creditors wouldn't seize the proceeds. Are we beyond having to worry about that sort of thing? Or is that another piece of the puzzle that needs to be addressed?

MR. TETRICK: I'm seeing others say no. I was going to say, like, at least the termination of contracts, if there's performance on the contracts, there's not going to be a right to terminate.

MEMBER HERRING: No, it's during the clearing process.

MR. TETRICK: Oh, I see. So there might need to be either -- make sure there's enough resources that there's confidence that there doesn't need to be some sort of additional assurance or if it's necessary to provide that.

Then we'd look at the right way to --

(Simultaneous speaking.)

MEMBER HERRING: As I understood it, it was creditors that saw this as an opportunity to improve their position.

MR. TETRICK: Sure.

MEMBER HERRING: It was an asset they could seize. But I'm sure others know a lot more about this than I do.

MR. TETRICK: And I haven't studied that case in particular and should. But one thing I was going to say is while this solvent wind down approach is a big challenge and seems daunting in some ways, there's been a lot of planning done in Title I. We're also in a far better position to wind down the trading operations of a GSIB than we were with AIG financial products and the 2008 crisis. And while a single point of entry resolution was undertaken for Credit Suisse last year, all the authorities were prepared to coordinate around

that and would've involved a significant wind down of the U.S. and UK trading operations.

And I think even the supervisors of those entities were pretty confident it could be carried out. So that's everything we had here. We're a few minutes over. And I think we've gotten to the questions. So if there -- that we had on the slide. But --

CHAIRMAN GRUENBERG: If there are any other -- we have a few minutes here if there are any other questions. Tim.

MEMBER CLARK: I have a question. I'll try and get it -- I waited till the end. So hopefully, I can remember all my thoughts. But there's a couple -- one of your questions is what can you do in advance to promote confidence in the SPoE process.

So if I understood correctly at the beginning of this conversation and I think I should've already known this and probably did. Early in the process, the FDIC has to make a

decision and claim publicly, I guess, that Title I cannot be executed, right? So you're not confident that you can execute Title I.

MR. TETRICK: Well, that's one of the requirements for using Title II.

(Simultaneous speaking.)

MEMBER CLARK: Right, exactly. So you've got that. Under Title II to quote your slide, it's more feasible that you could actually have a successful SPoE if there's sufficient capital and resources in place. So I'm wondering if you can put these two together.

One of the concerns I've always had about this is the consequences of, to use the wrong word, failing the assessment of your resolution plan are so intense that it's very unlikely that they will be used to their full extent very often. But one way to think of it is if -- just so you know right now whether a firm can be resolved under Title I or you have a pretty good idea. And if you have very clear signals

from the firm that their capacity to prepare for a Title I bankruptcy resolution is impaired.

Maybe what you need to do then is to make SPoE more likely to work is to actually require that there be sufficient capital and liquidity pre-positioned in all of the major subsidiaries required by rule as system guidance that this is how you should measure it. So just putting it out there that the consequence as we all know, I work in your business for a long time. I know how hard this stuff can be to do.

I think you need to find some lever to get the institutions and those on the Board of Directors and elsewhere to really take seriously their responsibilities with respect to preparing for a Title I resolution that are short of the nuclear options that exist today and is unlikely to be used. So I'm just throwing out a possibility. If you know in your mind you're likely to say we have to do this because it can't be done in Title I, that seems like a reasonable

time to increase the requirements for some of these banks in terms of capital and liquidity and pre-positioning. And please.

MR. TETRICK: How prescriptive to be on resolution resources is a policy debate that continues. We have, through the resolution planning process, require that institutions demonstrate that they have a credible amount of capital and liquidity prepositioned to carry out their strategy. But it's not obvious that it's going to work in all cases.

There's going to be scenarios where that breaks down. And we think that the key differentiator here is going to be between bankruptcy and Title II is going to be liquidity. They're required to maintain a lot of liquidity to carry out their resolution plans.

But if we're assessing, on a given scenario that that's insufficient, Title II does bring a lot of additional liquidity to the table. And so I don't think it's necessarily either/or.

I think it might depend on the scenarios.

MEMBER CLARK: Fair point. My point again is the banks are supposed to be responsible for ensuring they have a credible and effective, actionable Title I plan. If they don't which means you have to make the decision to go to Title II, that's because they failed to do what they were required to do.

MR. TETRICK: I think that would be --

(Simultaneous speaking.)

MEMBER CLARK: That's the point I'm trying to get, right? And so what can you do to then provide appropriate leverage to get them to not fail in the first place in that regard?

MR. TETRICK: As a resolution practitioner, very much in favor.

(Laughter.)

MR. TETRICK: I see Gary Cohn has his hand up.

MEMBER COHN: I think on the trading book side, you should go back and look at 2008

for the, I'll say, Goldman Sachs and Morgan Stanley. How's that? I'll pick on the bank with deposits at the time since I was at one.

When someone knows that you're no longer in the trading business and someone is actively -- and forced to actually wind down a trading book which was the assumption in '08. All of the winning positions leave your bank overnight. And the bank is left with losing positions and margin.

And anyone who's got positive collateral, positive positions in a bank, this is worse than a run on deposits. So the fact that people will know that the trading business will cease to exist, the prudent thing for any counterparty to do is move their position out prior to or as quickly as they can. And we saw the living example of this in '08. So I mean, just put that into your calculation.

MR. TETRICK: So back to the point on Title I playing credibility that the institutions

have solid wind down plans. And that's part of what they need to calculate, what we need to assess. Are they making credible assumptions about how that will occur?

But this is about, do you have an overabundance of capital and liquidity to allow those positions to run off and wind down? But agree, there's a reason we circle this on the page. We think it's the most challenging aspect here.

MEMBER COHN: I mean, look, I just go back to '08. You can see it in living color.

MEMBER LA SALLA: Can I ask? And at the risk of beating this to death, I apologize. But this is important, right? So just focus on equity trading for a second, right?

You've got some major GSIBs who are trading with non-exchange firms. So my question is ultimately going to be what's the communication plan specifically with exchanges because you can see those non-exchange trading

firms will pull away from a GSIB if they get a whiff that there's a problem. That order flow is going to go somewhere else, and it's going to have to go to an exchange.

How much could they handle and how much will they be able to step up in a stressed environment? So I guess my point is when you're thinking about trading counterparties, I would keep exchanges because they're committed to take on more of that flow that otherwise wouldn't go to them. And some of these GSIBs to Gary's point, they're moving a tremendous amount of flow.

MR. TETRICK: That's a great point. So I have equity exchanges, more focus on FMUs, rating agencies, external audit firms, third party influencers. We've got a long list of people to do more outreach with. So that adds to it.

CHAIRMAN GRUENBERG: We'll circulate a list after the meeting. Any other questions?

MR. TETRICK: Dominant vendors, that

as well, yes.

CHAIRMAN GRUENBERG: Let me thank the staff. Let's take a break for lunch and we'll come back afterward.

(Whereupon, the above-entitled matter went off the record at 12:43 p.m. and resumed at 1:55 p.m.)

CHAIRMAN GRUENBERG: I hope everyone enjoyed lunch, and the last item on our agenda today is the discussion of CCP resolution.

I think we have quite a few things to talk about, so let me turn it over to Art Murton.

MR. MURTON: Great, thank you, thank you.

Yes, we're going to talk about CCP resolution and the work that we've been doing there.

I think earlier the Chairman noted that we're in a different place with CCP resolution than we are with GSIB resolution.

I think we like to think we've made

some progress on GSIB resolution, but I think it's fair to say that we're not in the same place with the CCPs.

And you'll hear more about why, but I might make three observations or distinctions. The first is the statutory framework.

Dodd-Frank made financial companies eligible for Title II orderly liquidation authority, and for the U.S. GSIBs, they are also subject to our Title I authorities, including the resolution planning process, which has been as you heard on the previous panel, a really important part of getting ready for the use of Title II if we had to.

And, I think as Tim Clark pointed out, Title I comes with some sanctions that are pretty meaningful if it's not judged that the firms have been able to make the changes necessary to become resolvable.

The second is just our institutional knowledge of banks versus CCPs. As an

organization, we've been involved in banks for 90 years, and we have a deeper understanding of them than we do CCPs.

Which is not to say we don't have people on here who are knowledgeable of CCPs and so forth, but it's just not the same.

And then third and related, is that in terms of our regulatory, federal regulatory partners, again we have a different relationship with the OCC and the Federal Reserve.

A longstanding history of working together on both supervisory matters, and resolution matters.

And that's just a different relationship that we have with the SEC and CFTC. And we don't have that long history of collaboration on these issues.

So, those are just some of the differences that I hope in part, explain why we are where we are.

And with that, I'll turn it over to

Aaron Wishart. But first, let me introduce the panel.

Jenny Traille, Senior Deputy in the Complex Institutions; Aaron Wishart; Laura Porfiris; and then once again, Pen Starke, from our Legal Division.

MR. WISHART: Thanks, Art, that's a really helpful preview for this afternoon's discussion.

As he mentioned, we're going to be kind of digging into some of the differences between the way we approach GSIB and CCP resolution here at the FDIC.

And we're also going to spend some time talking about a new international standard that calls for resolution authorities to have access to a set of resolution-specific tools to aid in a CCP resolution.

But before we talk about the differences, I think maybe it's just, it's worthwhile to mention some of the similarities in

how we would aim to resolve a GSIB, and a CCP.

For example, and we've talked about this a number of times today, the FDIC would manage the resolution of a GSIB using authorities granted under Title II of the Dodd-Frank Act.

We would use those same authorities for a CCP resolution.

Title II lays out a process for determining entry into resolution, authority to access the Orderly Liquidation Fund, the OLF, and the hierarchy of creditors in resolution.

These would all apply to CCPs, just as they do for GSIBs.

We would also expect to establish a bridge financial company to help manage the resolution of a CCP in resolution, and would employ some of the same stabilization tools for CCPs as we would for GSIBs.

So overall, the way we would approach executing a resolution in terms of mechanics and available authorities, is quite similar for both.

However, I think it's worth just mentioning explicitly here at the top, that while we use some of the same concepts and approaches for both CCP and bank resolution planning, we do understand that banks are not CCPs, and CCPs are not banks.

And we do seek to take into account the differences in the two in our resolution planning.

CCPs each dominate the markets that they serve without many readily available substitutes.

They rely on clearing members' relationships, and they operate on a very different regulatory framework, as Art kind of alluded to there.

So, those are some of the main differences we seek to take into account.

I'll just focus on a few here kind of as we get started. The first is that because CCPs provide critical services to the markets

that they serve, and that, and as I said, there are not really readily available substitutes for those services, the primary objective for the FDIC in a CCP resolution is the continuity of critical functions that the CCP provides to markets.

So that in other words, we don't see the short-term wind down of a CCP's services, meaning a cessation of its clearing services, as a viable option in resolution; whereas, that may be an option for a certain of a GSIB's services.

The business model of CCPs, and the regulatory framework in which they operate, also present particular challenges.

For example, by rule, CCPs must balance their books and adjust to market movements rapidly, so problems could come to light with very little notice.

CCPs require members to provide funds daily, and sometimes intra-day. And members in distress or operational challenges could manifest

with little or practically no notice.

And while CCPs have adopted comprehensive resilience and recovery tools, they have largely not reserved resources for resolution.

And we cannot rely on the recovery resources to remain at the CCP by the time we enter, that would support an orderly resolution.

And we'll talk a little bit more on resources in kind of the next section of our discussion, but it's worth just noting here.

Next slide, please.

So the Title II paper which Susan presented very well on in the earlier session, lays out the differences of the different phases of resolution along the crisis continuum, as we call it.

From BAU planning through resolution execution, and all the way to exit.

We refer to these same phases in our CCP resolution planning, but we expect the events

to move much more quickly, just as a rule.

We've developed a visual which you see on the slide here, to help illustrate the compressed timeline we expect to be up against in the case of a failing CCP.

Now on the GSIB side, our planning generally considers that one of them would fail with some runway period where we could increasingly heighten our readiness posture.

We just don't think we'll have this luxury for a failing CCP.

An event that leads to the need to resolve a CCP is likely to occur during a period of market volatility, or even really a crisis, or as a result of an unforeseen operational failure.

A CCP could come under stress from member defaults, which we refer to as default losses; from losses from other sources such as a cyber theft or litigation, which we refer to as non-default losses. Or from a combination of both at the same time.

And because CCPs must maintain a flat book and meet payment obligations in specified tight time frames, a default loss that burns through CCP recovery resources, which unlikely could, excuse me.

The recovery resources, which are largely made up of claim member's mutualized fund, is an unlikely event but it could crystalize very quickly.

On the non-default loss side, CCPs largely do not maintain significant resources relative to the size of their daily payment obligations, to address these types of losses.

They are also typically unable to use members' mutualized resources to address these losses.

So the default loss waterfall that you think about when you think of a CCP, is generally not available in a non-default loss scenario.

For these reasons, a significant but not enormous non-default loss could quickly

outstrip a CCP's ability to make all required payments and thus, may make resolution likely. Or necessary.

This particular challenge highlights the criticality of advanced planning in preparation for a CCP resolution.

We simply don't think we'll have the time to ramp up in the runway, for a CCP resolution.

Our Title II paper also includes an illustration similar to this. It has a slightly less precipitous decline.

We colloquially refer to that as our ski slope illustration. I like to call this one our bungee jump.

Next slide.

So there are some further important differences in the resolution framework between GSIBs and CCPs, that are worth spending some time on here.

First, and we've talked about Title I

a lot this morning, so I think that's an important point to start with to highlight differences.

The Dodd-Frank Act requires GSIBs, as we've discussed, to file resolution plans with the FDIC and the Federal Reserve, which require them to account for their rapid and orderly resolution in bankruptcy.

As mentioned, we learned a huge amount about the firms in these plans, including information on risks from affiliates and subsidiaries, ownership structures, assets, liabilities, contractual obligations, counter-parties, and collateral information.

CCPs on the other hand, are not required to file such resolution plans. It's worth noting that the CFTC and the SEC, the primary regulators the U.S. CCPs, do require them to develop recovery and wind down plans.

And we do rely heavily on these plans in our resolution planning. But they just don't contain the same level of detail about a CCP's

operational risks, or operations and risks that are required in the GSIB Title I plans.

And it's also worth mentioning here, too, that both agencies are in the process of enhancing the requirements for those recovery and wind down plans.

And the proposals for both included a provision that would require the CCPs to consider the impact of financial stability for the application of their plans, which is a meaningful step forward.

And as I've said, these plans are critical to our firm-specific planning and BAU preparation. So, the FDIC welcomes these enhancements.

But the difference, as I have said, between recovery and wind down plans on one hand, and GSIB Title I plan on the other, in terms of coverage and detail, are meaningful.

Another important point is that Title I gives the Fed and the FDIC the authority to

address barriers to resolvability, which again, have been discussed this morning. Any barriers that are identified through plan review.

For example, through the Title I process, GSIBs have rationalized legal entities, developed capabilities to deploy capital and liquidity in resolution, and developed governance arrangements, among other things.

Again, this is not the case for CCPs. Because CCPs are not subject to Title I, the FDIC has no authority to directly require CCPs to address barriers to their resolvability.

The second point on the slide here is that the regular backup FDIC supervision for GSIBs is a critical component of our resolution readiness.

The FDIC maintains an onsite presence at all of the U.S. GSIBs, and has visibility inside into these firms that really helps in the preparation and implementation of our Title II resolution plans.

Because we are not a backup supervisor for the CCPs, we don't have the same visibility and insight. It is far more limited.

MEMBER REED: Could I ask --

MR. WISHART: Go ahead.

MEMBER REED: -- a dumb question?

MR. WISHART: Sure.

MEMBER REED: How many such entities are you responsible for? In other words, how many CCPs have you defined in this category?

And do you have an idea for if one CCP got in trouble, how much money are we talking about? Is this, are they big liabilities that might be there?

MR. WISHART: So I'll answer the first question. We actively plan for, or do firm specific planning for five U.S. CCPs.

Those are the five of the eight FMUs that have been designated by FSOC as systemically important, that happen to be CCPs.

MEMBER REED: Okay.

MR. WISHART: And the, I should have that number in front of me. It's a fairly, it's a sizeable number if one of them was to fail, but I can't recall off the top of my head exactly what the magnitude of that would be.

We'll have to --

(Simultaneous speaking.)

MEMBER REED: Billions?

MR. WISHART: Yes.

MEMBER REED: Okay.

MR. WISHART: So, for the backup supervisor authority I just mentioned, we just don't have those for CCPs.

And we rely on our relationships with the CFTC and the SEC and information sharing arrangements with them, to learn key information about U.S. CCPs and their operations.

Next, as a result of reforms following the global financial crisis, the organizational structure of GSIBs has been greatly simplified and improved. Including by requiring a clean

holding company that further supports the SPOE strategy.

By contrast, CCPs are often deeply integrated with affiliated exchanges and service providers, or are subsidiaries of much larger groups.

Those relationships complicate both their point of entry considerations, and separability.

And for GSIBs, there are well-defined capital and liquidity triggers. I think we discussed those quite a bit with Ryan this morning, that seek to provide assurance that even as the firm enters resolution, loss absorbing capacity remains.

These triggers are critical in helping the FDIC identify when and how we should start heightening our readiness or making a recommendation for entry into resolution.

And they also give a clear indication of how much loss absorbing and liquidity

resources would be available for resolution execution.

The CCPs don't currently identify such triggers and as we've previously said, U.S. CCPs have not been required to raise additional capital, or reserve any resources that would specifically support an orderly resolution.

We also can't rely on sufficient CCP recovery resources in resolution. And any end-of-waterfall resources that may remain to us when we enter, may be destabilizing in their application.

These surrounding circumstances, plus the challenge that a failure of a CCP could materialize rapidly, further underscore the importance of planning in BAU and the need to dedicate resources for CCP resolution.

And we'll do more on the resources point in a bit, when we discuss the FSB's new resolution resources standard, so I think maybe we could wait to have any discussion of that until

after the next presentation.

But for now, I think we could stop and open up the floor for discussion. We've got a couple discussion questions here on the slide that might be instructive for us.

Are there any challenges I think that folks have identified, that we didn't discuss that we should be considering for a CCP resolution?

And secondly --

(Simultaneous speaking.)

MEMBER BERNANKE: It might help if you gave us a scenario for failure. So, what --

MR. WISHART: Sure.

MEMBER BERNANKE: This clearing, it's not instantaneous, it's not real time, is it? Depends on the, I guess it depends on the?

MR. WISHART: Yes, it depends.

MEMBER BERNANKE: So the problem would be if one of the counter-parties failed, and then somehow the CCP would be stuck with the liability

from that?

MR. WISHART: That's correct.

MEMBER BERNANKE: But there's also, so there is effectively capital because the --

MR. WISHART: There is. So, the scenario would have to be one or multiple counter-parties defaults to the CCP, and that effectively burns through the mutualized resources available.

And the mutualized resources are both pre-funded and contingent liabilities to the CCP. So, the CCP generally has the ability to call for assessments on members, or to in some cases, to not pay out on variation margin gains.

And so, the default losses would have to be large enough to either burn through that, or to go so far as to affect our assessment of impact on financial stability and therefore, make a recommendation. Go ahead, Pen.

MR. STARKE: Yes, I was just going to say, just to be clear, Aaron talked about the two

different types of potential problems. Default losses relate to the failure by the counter-parties, by the clearing members.

And non-default losses are operational losses that have different ways, of different waterfalls.

And, when we talk about capital, there are capital requirements for CCPs like there are for banks. But the requirements are very, very different.

I think in some cases, the CCP is required to hold capital to ensure that it could cover a year of operational expenses.

So, it's nothing like the bank regulatory capital requirements that you're familiar.

MEMBER LA SALLA: So maybe, sorry, I feel a little bit like a chicken in a fox den right now.

(Laughter.)

MEMBER LA SALLA: And I'm thinking

maybe I should sit on that side of the table, not this side of the table.

So, let me try to take a shot at this. By the way, I think the presentation was really good. I think you covered a lot of the issues that CCPs and I guess ultimately, a CSD would have.

But I think the important point is about the different business model, right? And it is a very different business model.

And I would, before I say anything else, I would not underestimate this point you made earlier about working with the SEC as an enforcement regulator versus the Fed or somebody. That's going to be a very different dynamic, and hopefully one we'll never have to face.

But couple of things on the business model. And I can't speak for all CCPs. I can speak for DTC and a cash CCP; can't speak for the Options Clearing Corp, for example.

But a couple of things. One of the,

we do have capital but as Pen said, we look at capital differently. It's not really to absorb a loss, it's to keep the ongoing running of the business for a certain amount of time.

We have a right in our case, not all CCPs have that, but we're the biggest, right? We have a right to call, we have a right to call capital from our member firms.

And in our case, we can do that whether it's a default or a non-default. So if we get hit with a operational issue, we have that same right to call capital. We certainly don't want to do that.

The other difference in the business model that we might see from a GSIB, there are a number of things.

One is there is a large amount of concentration, and I do think that that's coming through the CCPs.

And I think this conversation is very timely, so let's just talk about the two major

market structure changes that have happened in the past year, or are happening.

T+1. We've cut the settlement pipeline risk in half, which is a good thing. But we've shortened the amount of time it takes now to instruct, and then settle the trades.

In a T+2 environment, sorry, this will all make sense at the end, but in a T+2 environment, our members had from 4:00 p.m. close of the exchange to 11:30 a.m. to send in files to meet the net at NSCC.

That is now down to 5 hours. To meet the net in a T+1 environment, you've got to be in to us by 9:00 p.m. on trade date.

So, there is an issue in terms of timeliness on that. But you net and, to be quite candid, we actually reduced because of the shortened settlement cycle, we reduced our clearing fund from what was on average $13 billion a day to $9, because we reduced the settlement pipeline risk.

So, we've returned $4 billion of liquidity to the industry, which is a good thing. But my point is the window is narrowed.

The second thing that's happening is Treasury clearing. With the mandate of moving more treasuries into central clearing, there's a greater concentration.

So, for example for us, a year ago we cleared $5 trillion a day through FICC. On September 30 of this year, we cleared $10 trillion.

And it will grow although there will still be a lot of bilateral trading in the system, and people don't realize that, the concentration will grow.

That's a critical point and drives home the point that you made.

So, that's why it's important that we talk about it because as we were saying earlier, there is no Friday in a CCP. It's immediate.

And there is no time for a wind down.

Trades have to settle on T+1. Treasuries have to clear.

If it doesn't happen in a CCP, it's not going to be good.

So, the idea of a resolution has to be much more immediate. There's no time, there's absolutely no time to wait. We can't. The markets are going to keep going.

The good news is the business model itself is very simple. It's a simple model. It's not like you're dealing with a complex GSIB; you can get your arms around it pretty quickly.

You can operationalize it pretty quickly. I think that is important.

The second thing is, is even in the event of a double dealer default, we have the collateral, the CCP has the collateral. It's not gone anywhere. It's about access to liquidity.

So in a default event, in my opinion and when we've modeled it out, it's about access to adequate liquidity to settle the other side of

the trade to keep the markets functioning.

And that's what the members want. So those are the -- sorry, but those are the considerations that we, that make it very different than we're talking about a GSIB recovery and wind down.

MR. WISHART: Yes, and I think to just like put a fine point on that, like we focused in this on our discussion between the differences between GSIBs and CCPs.

But it's worth noting that there are significant differences in the business models of the CCPs themselves, in the United States here.

What Frank is describing with DTCC for FICC and NSCC in particular, is that they are cash clearance models, whereas the other three that we do our firm specific planning for the Options Clearing Corporation, and CME and ICE Clear Credit are all derivatives focused CCPs.

And so, the exposure, the duration of exposures that they're clearing and the like,

they are different.

The way that they set up their waterfalls for managing default losses, is different.

The idea of like exchanging margin daily is slightly different as well.

So, we are seeking to take those differences between those specific CCP business models into our firm specific planning account, as well.

That hadn't been kind of the primary focus of the discussion here, but I just want to make sure that that's clear.

MEMBER LA SALLA: I just think it's important everybody. It's not a one size fits all.

MR. WISHART: It is not.

MEMBER LA SALLA: It's just not, right?

MR. WISHART: It is not, it is not.

And you mentioned the dealer default issue. That is a, I think probably like a default

loss that leads to a CCP resolution is a very, like it's a low probability event, but a very, very high impact event if it were to happen, if the CCP was to go into resolution.

So, that's I think another reason why we're here talking about this - is it's an important issue to consider even though it's far down the tail of the risks that we face.

It is the impact –it’s so great that we think it's critical to talk about.

Go ahead.

MEMBER HERRING: Aaron, of the five of the eight CCPs that you have strategies for, how many of them are overseen by the SEC, and how many by the CFTC?

MR. WISHART: Sure.

MEMBER HERRING: And does that make a big difference?

MR. WISHART: Yes, it does, but I'll clarify one thing really quickly there. It's that FSOC has designated eight financial market

utilities.

MEMBER HERRING: Uh huh.

MR. WISHART: Five of which are CCPs. And I apologize if I wasn't clear with that there.

So, the other three are CHIPS and CLS, ostensibly payment systems, and DTC, which is a central securities depository. So, it sits within the DTCC umbrella but it's not a traditional CCP.

So, I mentioned it's NSCC, FICC, OCC, not the OCC we've been talking about all morning, but the Options Clearing Corp., and ICE Clear Credit, and CME.

The second question you asked, I apologize?

MEMBER HERRING: How do they divide --

(Simultaneous speaking.)

MR. WISHART: Oh, yes, the SEC. So, the SEC is the primary regulator for the DTCC ones, NSCC and FICC, and the Options Clearing Corporation.

The Options Clearing Corporation is dually registered as a derivatives clearing organization with the CFTC, as well.

The CME and ICE Clear Credit are primarily overseen by the CFTC.

MEMBER LA SALLA: Yes, the cash side of the market is regulated by the SEC. The derivatives side, the futures side, is the CFTC.

MEMBER HERRING: Okay, thanks.

MR. WISHART: And it does make a difference just in terms of different agencies' approaches and authorities, to supervision and regulation.

We seek to build good relationships with both, and we are in contact with them on a very frequent basis to discuss issues about CCP resolution, and to learn how, more about how they supervise and think about resilience and recovery for CCPs.

So, in terms of like building relationship, I don't think there's much

difference there, but their approach to the supervision of their CCPs is different.

And I don't think I have the wherewithal to get into the details of that here.

MEMBER HERRING: The other question that occurred to me and I'm not sure of the answer is, one that popped up this morning about what if a number get into trouble at the same time.

It strikes me without knowing an awful lot about it, that the prospect of contagion may be bigger with regard to CCPs because you don't have a non-bank sector, a non-financial institution sector to lay losses off on.

It's all going to bleed down within the financial system. But do you have a handle on how realistic it is to expect one at a time?

MR. WISHART: We tend to think that if one of them were facing stress as a result of a, kind of a especially in a default loss situation, that that is less likely to be an idiosyncratic scenario.

The largest clearing members of the CCPs tend to be large clearing members at all of the CCPs, and so a default at one necessarily means a default at many.

That does impact our thinking. It's very hard to model. It's very hard to actually go down the route of quantifying how that would, how that would manifest.

But we are actively thinking about that, and trying to account for it in our planning.

MEMBER HERRING: Do we have any stress tests to give us an idea about --

(Simultaneous speaking.)

MR. WISHART: Both the CFTC and SEC do supervisory stress tests.

MEMBER HERRING: But they do them simultaneously?

MR. WISHART: Right now, I don't believe they do that. The CCPs themselves also do daily stress tests in many cases. They're

constantly stressing their own portfolios.

MEMBER HERRING: No, it's the systemic piece of it.

MR. WISHART: The systemic piece that is difficult. I'll make a nod to the Europeans. ESMA actually has modeled out a network stress test for CCPs, which are quite good.

They're interesting and they do seek to take those network effects into account. The Bank of England is also embarking upon its system wide exploratory scenario, which is beyond just CCPs.

But again, an attempt to model out kind of a financial stability impact.

MEMBER CUNLIFFE: No, I was just going to make one point on challenges, but just on I think you hit the nail on the head with this. This is about how far into the tail of the risk distribution you want to go.

So protecting, and the idea of bankruptcy doesn't really exist for CCPs because

their rule books allow themselves to wind themselves up and tear up all the contracts.

It's really so the rule book says the CCP doesn't go bankrupt, it just ceases operation, but it leaves everybody else without protection.

And from a financial stability point of view, that's not an acceptable outcome. But you're not trying to avoid a bankruptcy, an insolvency.

And the losses are very difficult to size because I'm talking, where I used to supervise the London clearinghouse, which has a lot of very long-term derivatives, 20 years, so the interest rates derivatives in there.

So, if the market is moving fast and you get a big default of two or three clearing members, and the CCP suddenly has got an unmatched book, the size of that loss can just balloon out.

And you can't size it by saying it's

two times capital requirements or whatever. It's a judgment call now about how much risk do you want to protect against.

And people say well, let's have a reload, a complete reload of the default fund because that feels like a reload of bank capital.

But in my view, it's not very relevant in this particular situation. It's much more a question of who manages this situation now, and who uses the resources.

And do you let CCP management sort of control this. And can you depend on a cash call or further calls on the other members?

Because in a time of crisis with two or three big banks gone down, you're putting additional strain, or do you want prepositional resources and if so, how far?

So, it's very difficult to find answers to size this thing. And as they say in Europe, we've decided against prepositioned, a second round of prepositioned resources because

you've got, first of all, you got the initial margin of the defaulter, then you've got the default fund, then we turn to cash calls, and variation margin gains haircutting.

But you could do prepositioned resources. It depends a lot about the coordination between the CCP supervisor and the resolution authority, and understand the differences here.

The one thing I don't think you've taken you might think about, is that many of the largest CCP clients also hold the liquidity, and provide services to the CCP.

So if one or two of the big investment banks were to go down, then it's not just that they can't meet the margin. But the CCP may well have parked its liquidity resources there.

Some of them can park at the Central Bank. But you've got a much more complicated relationship between the big investment banks who are the main threats and the CCP, than just the

default.

And I think we've not quite sort of pulled apart how you would manage that if you're managing the default of somebody who is also holding a large bunch of your liquidity.

MEMBER LA SALLA: No, and Jon, you're right. I just think just for the avoidance of that, we should not, we shouldn't conflate a double dealer default with a default of the CCP. They're totally, right?

MEMBER CUNLIFFE: Yes.

MEMBER LA SALLA: I just want to be clear about that.

MEMBER CUNLIFFE: Yes.

MEMBER LA SALLA: The CCP will manage that default, right, that's what they're intended to do.

But Jon raises an interesting point around governance. So, some CCPs are user-owned, user-governed, which means the participants are on the board.

So, you will have, you've got to think about in the event of a CCP default, what the governance.

So we talked about it earlier this morning, right, what do you do with your board. But you've got to consider the governance pretty quickly because you're going, you potentially could have some very conflicted board members because it is user-owned, user-governed, right?

So that's a consideration that we've got to, you've got to put into the mix.

And as Jon said, nobody wants to tear up trades, so that's the last thing anybody wants to do. It really is a last, it's more than a last resort.

MEMBER COHEN: Let me offer an observation and then a question, which may be fatuous.

So, the observation is listening to this and hearing about a lesser degree of progress, it seems to me this may reflect more

than anything the absence of sufficient tools.

And so, the fatuous question is, is this something which Congress should be dealing with other than the merger of the SEC and CFTC, which I don't think will be --

(Laughter.)

MEMBER COHEN: -- happening?

MR. WISHART: I'm not going to touch either one of them.

(Laughter.)

CHAIRMAN GRUENBERG: I think, Rodgin, if I may. Since I was around back then in 2008 and when we, the Dodd-Frank Act went through as you well know as well as me, Dodd-Frank dealt with the supervision of CCPs. But it did not deal with the resolution of CCPs.

And which is in striking contrast to the GSIBs in which there was both a set of supervisory authorities provided, and a substantial framework for GSIB resolution, which was a source of conscious attention. And

substantial authorities provided.

And the fact is that they concluded the title dealing with CCP supervision at the last minute, and they had no time to think about resolution.

And so, we were left with a, in some sense an incomplete framework from our standpoint as a resolution authority in which Title II was established with authority for the FDIC to manage the orderly failure of any financial company, whether a bank or a non-bank financial company, that may pose financial stability risk.

But we were only given tools to deal with the bank situation. We were not given tools to deal with the non-bank scenario, including CCPs.

And, we have not yet, so and I don't think to answer your question yes, there would certainly be a logic for Congress to come back and fill that statutory gap and authority, but I don't think the prospect of that is high anytime

soon.

So I think as a practical matter, we have to work with the institutional framework that we have in which the FDIC by default, would be the resolution authority because CCPs almost certainly would be of systemic consequence if they were to fail.

But the market regulators, the SEC and the CFTC have both the supervisory authorities and to the extent resolution planning exists, it falls under the rubric of their recovery and wind down plans.

And what you'd need is some cooperative effort between the FDIC, and the market regulators, the Federal Reserve no doubt would have to be a participant in this as well, to try to cobble together a, and adapt a framework to try to establish some capability here. Which we have not arrived at yet.

We've had a good deal of discussion, made a little bit of progress with the market

regulators to the extent they expanded their role relating to recovery and wind down plans to provide more information relating to the wind down scenario, which is their terminology effectively for resolution.

So that was a step in the right direction, but we for better or worse, have a long way to go.

And I don't know yet that we have the institutional cooperation in place. I don't know how far we can get in that direction.

But I think that's a fair and I'll ask staff to check me on that if I'm wrong, but I think that's a fair characterization of where we are.

And in the international context, I do think some of the other leading jurisdictions, the UK is a notable example of this, have established a more complete institutional framework.

I think the European community is

moving in that direction, as well. I think that remains a challenge for the U.S.

And since we have a number of large CCPs, it's a significant issue.

MR. MURTON: I think that's a good segue to the next portion of the presentation. Turn it over to Jenny.

MS. TRAILLE: Sure, thank you.

So, for this next and final session of the CCP presentation, we wanted to focus on an international standard, which was put in place by the Financial Stability Board earlier this year.

And maybe just to put it in some local terms. So within the Financial Stability Board, this was work done by the Resolution Steering Committee, or ReSG, which our Chairman is the chair of.

And then, there is sitting under ReSG, a sub-group that focuses on financial market utilities, that's co-chaired by Art Murton. And I'm the FDIC's member in that group.

And I was going to make the point that this group, that focuses on FMUs, has been around for a long time too, but similarly it lacks in progress as compared to GSIBs.

This is the parallel group that works on GSIB resolution. And we've talked a lot already about why the U.S. resolution planning is difficult and challenging. I think it's now pretty apparent.

But in this group, too, when it started back in 2015, at that time, a lot of jurisdictions hadn't even established a resolution authority.

And so as a result, in this group that is represented by jurisdictions around the world, you had a real mix of a lot of supervisors. You had agencies that might expect to be made resolution authority, but weren't yet. And then some jurisdictions with resolution authorities.

And that sort of, a more heterogeneous group of perspectives, meant that the focus of

that group, or maybe the way that authorities looked to, to potentially solve problems, had more of a supervisory focus instead of being like really core resolution focus.

And so, like an example of that might be, let's focus on making sure the recovery works so we will never get to resolution. Instead of, what happens if we do get to resolution.

And so, it's taken some time to work through some of those different perspectives.

And I think another reason where we have sort of, it's taken us a little bit longer to get to where we are on the resources piece, is that when we started there were also not resolution regimes specifically in place for CCPs.

In 2015 I think the U.S. was looked at as being far out and ahead, because we had a regime that applied to CCPs. That's Title II of the Dodd-Frank Act applying to financial companies.

And I think that was probably one of the reasons that we were asked to lead that inaugural group, and have been in there ever since.

But, in the interim, we've seen other jurisdictions like the EU or the UK, come out with regimes that are explicitly focused on CCPs, and take into account those considerations and how they're different from GSIB resolution.

So, this standard is an important step forward. It's focused on resources, and by that we mean financial resources to support resolution.

And its specifically geared towards an expectation that resolution authorities should have access to certain types of resources reserved to support resolution.

And that is above and beyond what may be left over after recovery has taken place. So this is dedicating financial resources to be there to support an orderly CCP resolution.

So with that, I'll let Aaron walk through sort of more context and how it's meant to work.

MR. WISHART: Thanks, Jenny, appreciate that background there.

As she mentioned just now, this new standard came out in April of this year, and it is meant to ensure that resolution authorities have access to financial resources and tools dedicated for resolution, that could be used without an adverse impact to financial stability.

Again, I think it goes without saying but I'll say it. The FDIC did strongly support this initiative.

As we've alluded to several times, we came at this from the point where while CCPs have substantial recovery resources and tools, we don't think resolution authorities can guarantee those resources will remain to them in resolution.

Or that if they do remain, if the

resolution authority steps in at a point where they do remain, they may not be, they may be themselves destabilizing in their application.

And so, this is why the authorities at the FSB believed it was critical to adopt this standard, to ensure that those resolution authorities for systemic CCPs would have access to those resource options.

And could support an orderly resolution and financial stability objectives.

It's laid out on the slide here. The standard expects that resolution authorities have access to what we call a set of resolution-specific resources and tools.

And then, to be transparent about the approach to calibrating at least one of those resources or tools. This is something that we've described as a quote/unquote, toolbox approach.

So, the FSB identified and analyzed seven different resolution-specific financial tools or resources in this standard.

We should be clear. Each one of them has their own specific strengths and weaknesses. So, the authorities determined that a combination will be necessary to achieve the objectives of a resolution.

And before we get into a discussion of what's in the toolbox or the available tools, I'll just note a point of confusion that's come up in the past.

That jurisdictions can select their preferred resources and tools that would be appropriate to their jurisdiction from this set, but that they're not required to adopt all of those on the list.

So, you don't have to come at it, or doesn't expect you to come at it and adopt all seven for your regime.

But I guess we'll just spend a few moments going through the list of resources and tools here, and some of the benefits and drawbacks for them.

Bail-in bonds I think are fairly well known. They're subordinated debt or unsecured debt, ranking junior to other liabilities issued by a CCP to recapitalize the CCP and absorb losses in resolution.

Something like TLAC, but adapted to CCPs. And a CCP would issue the bail-in debt in BAU periods for use in a potential resolution scenario.

They would for example, allow a resolution authority to convert those liabilities into equity in the CCP.

And they have the benefit of being pre-funded. And thus, may be available with more certainty in resolution. But as you can imagine, they may also increase the cost of clearing.

Resolution funds are dedicated pre-funded resources, which can be called upon in resolution by a participating resolution authority.

A resolution fund could either be

national or supra-national. Covered CCPs or clearing participants would be expected to contribute to the fund in BAU, and their operation could be similar to that of a deposit insurance fund, or a bank resolution fund.

They come with some of the similar drawbacks and benefits as bail-in bonds, but would also be likely considerably challenging to establish operationally.

Resolution-specific insurance is a contract in which an insurer agrees to provide the funding to the resolution authority, or the CCP.

The terms of the insurance would vary based on the policy, and could be structured to address specified risks in resolution.

Resolution-specific third-party contractual support would represent contingent resources provided by a third-party, available to the resolution, a resolution authority, or the CCP in resolution.

These financial resources would be specified in the contractual documentation, and could be structured to address specified risks in resolution.

Insurance and third-party contractual support are quite similar in their features and drawbacks. Both could be structured to satisfy most resolution needs, but depending on their design they may be lacking in timeliness.

So too your ability to draw upon them. And they come with some legal and operational uncertainty.

MEMBER BERNANKE: Can you use, you and the SEC, use your power over the participants? In other words, say if you're going to participate, if you are a big participant and you're going to be in the CCP, you have to X, buy contingent bonds?

It seems like an indirect way to get at the problem.

MR. STARKE: I don't believe that's the

case. People will only buy bonds that are issued, and we certainly can't require that the CCPs issue bonds, so.

MEMBER BERNANKE: But the participants own the CCPs.

MR. STARKE: That's not necessarily the case. That is the case in certain cases, but I believe CME is a publicly traded corporation. I think ICE is the same.

MR. WISHART: Yes, ICE Clear Credit is a subsidiary of ICE, Intercontinental Exchange, a for-profit corporation, so.

MEMBER COHEN: This is such an important question though, and I have no idea what percentage of the volume and I know it will vary from CCP to CCP, is conducted by entities which are not comprehensively regulated.

And, yes, like a Federal Reserve FDIC/OCC regulation. Trying to figure out what the weak points really are here if default is probably the greatest issue, and you have

entities which are not well-regulated.

MR. WISHART: So, I think it's worth pointing out that the largest clearing members, the clearing members with the largest exposures to the CCPs, are generally GSIBs.

MEMBER COHEN Yes.

MR. WISHART: And not always the case, so I don't want to make an over generalization there, but there is, there is another issue worth pointing out is that large clients can often clear through multiple members, right.

So their access model is dependent upon clearing through a member who is, who guarantees their trades to the CCP.

And those clients can often build up quite large exposures that, that we don't necessarily have direct visibility into because we don't always know who the biggest clients are, and we don't always know who they're clearing through.

And we at the FDIC, I'm not, will not

speak for my supervisory colleagues, but we at the FDIC don't always have a comprehensive picture of what that total exposure would look like from a large client.

So, not a direct clearing member.

MEMBER LA SALLA: I think it's safe to assume the vast majority of participants to CCPs are regulated either by the SEC, FINRA, or the CFTC.

It's not non-regulated entities that are members of the CCPs.

MR. WISHART: Gary, I see you have your hand up?

MEMBER COHN: I do.

In relation to Rodgin's question, the largest clients today probably in many respects outside of the GSIBs, are the I would say lightly regulated electronic market makers.

So you could go to the Citadels, the Two Sigmas, the Virtus. And if I were telling people where I would worry, and if I'd looked at

all of the historical problems, I would worry on electronic trading fat finger in a derivatives market.

I don't think we have to worry about the cash market. Cash market's really hard to create a systemic problem.

Really easy to create a systemic problem in a derivative market where all of a sudden if the derivative market moves, people's exposure compounds and really multiplies dramatically, and dramatically quickly.

And those markets, the biggest market makers, I would say are probably the lowest, the lightest regulated we have. And it's just an effect of the regulatory environment we created in 2008.

MR. WISHART: That's a really helpful point, Gary, thank you.

So if there are no further questions at this moment, I guess I'll go on and finish describing the resources and tools.

So resolution cash calls, which I think have been mentioned here already, and we'll discuss a little bit more in just a moment as well, are they're contractual or statutory provisions that enable the resolution authority to make one or more capped cash calls on the clearing participants, once the CCP is in resolution.

These are separate and in addition to any cash calls that the CCP may itself, have in its rule book.

Recovery cash calls are well understood because they are in most CCPs' rule books. Not all of them, but most.

And so, they're well understood and then, depending on the design, they may be predictable in their use.

However, in a systemic crisis scenario, their use may have financial stability impacts.

Similarly, statutory or contractual

variation margin gains haircutting or VMGH as it's known for resolution as a means for specifying the resolution authority has an independent right to delay, reduce, or cancel variation margin payments in resolution.

Again, this is separate and in addition to any VMGH that might be included in a CCP's rule book.

Similar to cash calls, VMGH is well understood by CCP members. It is, however, inherently less predictable than a cash call because, in advance, because it would depend on who is owed margin on what day, and what is happening in the markets.

VMGH might also have financial stability impacts in its use.

And then the last tool, equity write-down refers to the resolution authority's power to use existing CCP owners' equity in the CCP to absorb losses in a first loss position.

Equity write-down could be useful in

resolution, but may not be available in sufficient amounts.

We've highlighted here again, and there's been discussion of this. We've highlighted on this slide two jurisdictions that have made meaningful progress.

The United Kingdom under the leadership of Sir Jon Cunliffe here when he was at the Bank of England, and the EU, who were both ahead of the FSB.

It's worth noting that, too, in adapting, or adopting a set of resources and tools available to their specific resolution authorities.

I think as we may have already mentioned, both have already established resolution regimes that reserve cash calls and VMGH for the resolution authority, in addition to those that are available to the CCP in its recovery efforts.

They also have, both have the powers

to remove impediments to resolvability. And so, that's I think an important point to make as well, just given that the nature of our last discussion where that's not an authority available to the FDIC.

The United States by contrast, doesn't have the, any of these resources or tools, these financial resources or tools sufficiently available to draw upon in the event of a failing U.S. CCP.

The FDIC would be able to write down CCP equity in resolution, but the amount available is unlikely to be, or is likely to be relatively small and, alone, may not meet all resolution objectives laid out in the standard.

Go ahead, yes, next slide.

MEMBER ERVIN: Can I ask a question before you leave that slide?

MR. WISHART: Go ahead.

MEMBER ERVIN: About something that's not on there?

MR. WISHART: Sure.

MEMBER ERVIN: People have talked about the procyclicality of initial margin. Is that, might it be a resolution tool, initial margin, saying hopefully avoids resolution. But it still seems to be part of that continuum of how far away you are from the tail.

Do we have any tools to maintain sufficient amounts of initial margin, even inside of sanguine markets, to make sure that they don't dip low and then have to be hiked really high when the crisis hits?

MR. WISHART: So that's not work that the FDIC has been a part of just because of the nature of our lack of supervisory authorities.

But there has been a very substantial international effort and effort in the domestic level to analyze initial margin, and to ensure that anti-procyclicality measures are in place at the CCPs, to effectively guard against that issue.

So that they are sufficiently high in peace time, and aren't ramping up excessively in times of crises.

But I can't speak to the details on that because that's not work that we're involved in.

MEMBER BERNANKE: Does the Fed's margin authority extend to this?

MR. WISHART: That's a good question. They have in Title VIII of Dodd-Frank, they were identified as a backup supervisor for systemically important FMUs, or CCPs.

I can't say for sure whether or not their authority extends to requiring margin levels, but it would be a backup authority and I'm not sure that they have used that backup authority in that way.

Okay, so I think we can move on here. So again, to come back to the United States just for a moment.

Where I sit, I think we in the United

States would need to adopt additional financial resources and tools, to be more confident in our ability to meet financial resource needs in resolution.

However, adoption of any such resolution specific resources would likely require regulatory or legislative action, and is not under the control of the FDIC.

I think it is important though, that we kind of do talk about what is available to us.

And at the risk of beating a dead horse here, I've mentioned a few times that we don't rely on CCP recovery resources in our own resolution planning, because we don't expect that those recovery resources will be meaningfully available to us at the point of resolution.

But as we've talked about a little bit this morning and as you're likely already familiar with in GSIB resolution, we do have access to the same dedicated liquidity resource that could be potentially drawn upon in the event

of a CCP resolution scenario, which is the Orderly Liquidation Fund.

Ryan talked about this in actually pretty decent detail this morning for GSIBs. But I'll just mention here some of the challenges associated with borrowing from the Fund for a CCP.

It comes with statutory restrictions that leave as a utility in a CCP scenario, uncertain.

For example, the design of the Fund itself, and this gets to something that Marty was talking about in Dodd-Frank not really contemplating a CCP resolution.

It appears to have had financial companies with very large balance sheets in mind, such as those of GSIBs. Because borrowing from the Fund is predicated on balance sheets.

And so, Ryan mentioned that we would be able to borrow in significant amounts for a GSIB resolution from the Orderly Liquidation

Fund.

CCPs though, for those of you unfamiliar, actually have very thin balance sheets with very few assets, financial assets of their own on them.

And so, borrowing from the Fund for a CCP is likely to be limited.

The OLF is also meant to be a last resort after all other options, options have been exhausted, and it should not be the primary resolution resource.

With that, I think I can turn it over to the committee for our next discussion. I will pause here, which is to focus more on resources and tools as we've been discussing.

So, the next slide, please.

So we've got a couple questions on this slide here that may prompt some discussion. Supporting orderly resolution requires resources and tools with certain characteristics, such as purpose and usability, timeliness, impact to

financial stability, et cetera.

How should these characteristics be compared with the cost and incentive to clear implications associated with resource adoption?

So, we talked about how some of the benefits of certain of the tools are their availability for use, and what you can do with them but they may come with cost implications.

And then of the characteristics we've identified here, are there any that the, that we should be prioritizing as we assess what we may want to pursue?

And lastly, what could the FDIC do, what more could the FDIC do to ensure access to resources reserved for CCP resolution?

MEMBER LA SALLA: I'll break the ice. Just I do, this idea of really breaking down scenarios is important.

So what do I mean by that? To me, from my perch I'm more worried about a non-default event than I am a default event.

I think CCPs have a lot of resources and experience in terms of a wind down, even if it's a double dealer default -- I'm not trivializing it, don't get me wrong.

But think about a cyber attack. Think about a major operational outage where the CCP goes down, right?

Now that's, that to me, word to the wise, I would really think, I would prioritize the scenarios out in a certain order because you can't boil the ocean anyway.

And I would think about as I said, non-default scenarios before I would think about default scenarios.

And then when you get to the default scenarios, it's really around liquidity and access to liquidity.

MR. WISHART: Right.

MEMBER LA SALLA: That's how I would. I'm oversimplifying it, just not to, it's been a long day but that's how I would sort of think

about it.

And I hope that makes sense. I hope that makes sense with what you have seen.

MR. WISHART: That's really helpful, thank you.

I think one of the things and I mentioned this early on is that this thinking about the different scenarios.

One scenario that could precipitate from a non-default event would be kind of systemwide attack, or something that affects multiple clearing members, and actually causes a default event. And that's another thing.

So, we are actively working on scenario identification and trying to figure out what may put a CCP into resolution, and think about how we would address those.

Thank you.

MEMBER CUNLIFFE: I suppose I agree on non-default, and you have an argument with the members are understanding that they're mutually

insuring each other.

But ensuring the CCP management against a non-operational failure, and saying that basically the members of the CCP should pay for the CCP's management's failure to conduct the operations properly is quite difficult.

But I think you have to give access to a cash call, or to the default fund for non-defaults, as well.

But then basically you're making, it can be presented, that you're making the members pay for the management's incompetence, if I can put it that way, and that's quite hard.

The point I might just, I understand why you've gone to resources. And you kind of listed what the Europeans and the UK have done.

But it's we did try and approach this thing in the round, and remember if you're in a default loss position, the CCP auctions and at the auctions, the positions of the defaulting members, so the other members of the CCP will buy

those positions and the CCP will then get back to a matched book.

And the default fund is there to cover the loss that it takes when it auctions those positions.

The point to which the resolution authority comes in and says we are now running this operation, and we are running the auctions.

And if you look at some of the near default instances we've had, there's been huge conflicted objectives between CCP management, particularly where it's propriety, it's a private company.

That's where some of the frictions come. So the ability to get in early while there are still some resources left, and to run those auctions.

And if you are going to do sort of variation margin gains haircutting to decide where the kind of costs, who the costs should fall upon in the systemic crisis, it's kind of

really quite important.

And you can't divorce that from the financial resources. One tries to kind of look at the thing in the round, and you can't divorce it from being able to tackle the barriers to resolution ex-ante, and to have clear line of sight to the CCP's operations, and what you might need to do.

Because you'll need to come in very, very quickly. The exercises we did inside the Bank of England suggested we would come in as a resolution authority probably after one default, after one failed auction of a defaulter's positions.

We wouldn't let the CCP management run again.

If you don't have any of those things and it kind of looks as if you don't, then the only thing you've got is prepositioned, TLAC or prepositioned resources. And I can understand why you've gone there.

But if you're thinking about it because you'll need legislation or something to get bail-in bonds or some form of prepositioned, I think my advice would be to think well, if you're going the legislative route anyway, and there's support for this, maybe think in the round about how you manage a default rather than just concentrate on can we get the financial resources. Because it's the dealing with this in this sort of fast burn situation. You need far more levers than just bail-in bonds.

MR. WISHART: That's really helpful, thank you.

MEMBER CUNLIFFE: So, I got out in time.

CHAIRMAN GRUENBERG: Well, we thought we would put this issue on the agenda for discussion. To be continued. The challenges here I'm afraid, are self-evident.

And I think we've come to the end of our time today. So before I conclude, let me

just say how helpful this meeting has been.

I think we've all been taking notes and the feedback has really been of enormous value. We'll see if there's anything here for us to follow up with you on.

And before I adjourn the meeting, let me just note as I was going home at the end of the day on Friday, I came across a group of our staff who were working to set up this meeting. And all of the logistics that go into it.

So let me if I may, just take the opportunity to acknowledge them because we wouldn't have had this nice meeting today without them.

So let me mention Krista Hughes, Nirali Shah, Scherisse Mohammed, Rosilyn King, Mitch Miller, Akhbar Tajudeen, Brian Smith, Veree Bampoe-Addo, Laura Crawford, and Jereon Brown.

Thank you all very much.

And thank you all very much.

(Whereupon, the above entitled matter

went off the record at 3:00 p.m.)