FEDERAL DEPOSIT INSURANCE CORPORATION

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ADVISORY COMMITTEE ON SYSTEMIC RESOLUTION

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MEETING

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THURSDAY,
OCTOBER 1, 2020

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The Advisory Committee convened at 9:00 a.m. EDT via Video-Teleconference, Jelena McWilliams, Chairman, presiding.

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PRESENT:

SHEILA BAIR, Former Chairman, Federal Deposit Insurance Corporation
DR. BEN S. BERNANKE, Distinguished Fellow in Residence with the Economic Studies Program at the Brookings Institution, Former Chairman of the Board of Governors of the Federal Reserve System
MICHAEL BODSON, President and Chief Executive Officer, Depository Trust & Clearing Corporation
HON. SHELLEY C. CHAPMAN, United States Bankruptcy Judge, Southern District of New York
H. RODGIN COHEN, Senior Chairman, Sullivan & Cromwell LLP
GARY COHN, Former Assistant to the President for Economic Policy and Director of the National Economic Council
WILLIAM H. DONALDSON, Former Chairman, U.S. Securities and Exchange Commission (SEC)

ROBERT DRAIN, United States Bankruptcy Judge, Southern District of New York
PETER R. FISHER, Senior Fellow, Center for Global Business and Government at the Tuck School of Business at Dartmouth University
RICHARD J. HERRING, Co-Director, The Wharton Financial Institutions Center and Professor of Finance, The Wharton School, University of Pennsylvania
DONALD KOHN, Former Vice Chairman, Board of Governors of the Federal Reserve System and Senior Fellow, Economic Studies Program, Brookings Institution
TIMOTHY J. MAYOPOULOS, President of Blend, Former President and Chief Executive Officer of Fannie Mae
SANDIE O'CONNOR, Former Chief Regulatory Affairs Officer for JPMorgan Chase & Co.
DOUGLAS L. PETERSON, President and Chief Executive Officer, S&P Global
JOHN S. REED, Former Chairman and CEO of Citigroup and Former Chairman, Corporation of Massachusetts Institute of Technology
GARY H. STERN, Former CEO and President, Federal Reserve Bank of Minneapolis and Presiding Director and Chair of the Board Risk Committee at the Depository Trust

FDIC PRESENT:

JELENA McWILLIAMS, Chairman, FDIC
MARTIN J. GRUENBERG, Board of Directors, FDIC
JASON CAVE, Senior Advisor to the Director for Policy, Division of Complex Institution Supervision and Resolution
ALEXANDRA BARRAGE, Associate Director for Policy, Policy and Data Analytics Branch, Division of Complex Institution Supervision and Resolution
RICARDO DELFIN, Director, Office of Complex Financial Institutions

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ELIZABETH FALLON, Deputy Director, Office of
Complex Financial Institutions
KRISTA HUGHES, Associate Director, Operations
Branch, Division of Complex Institution
Supervision and Resolution
JIM McGRAW, Deputy Director, Risk Assessment
Branch, Division of Complex Institution
Supervision and Resolution
LORI QUIGLEY, Corporate Expert, Risk Assessment
Branch, Division of Complex Institution
Supervision and Resolution
RYAN TETRICK, Deputy Director, Resolution
Readiness Branch, Division of Complex
Institution Supervision and Resolution
JENNY TRAILLE, Division of Complex Institution
Supervision and Resolution

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1 P-R-O-C-E-E-D-I-N-G-S
2 (9:03 a.m.)
3 CHAIRMAN MCWILLIAMS: Good morning,
4 everybody. I'm pleased to welcome you to the
5 2020 meeting of the Systemic Resolution Advisory
6 Committee.
7 I look forward to discussing our work
8 in progress in navigating the challenges
9 associated with resolving systemically important
10 financial companies.
11 But first, I would be remiss if I
12 didn't mention the passing of Paul Volcker. He
13 worked with many of us on the Committee and he
14 was the original Member of the Committee.
15 The SRAC was formed in 2011 as a forum
16 for the FDIC to bring together expertise inside
17 and outside the Agency to discuss the challenges,
18 opportunities, and progress being made to
19 implement our systemic resolution mission.
20 This year's meeting is another step
21 forward in that effort. I'm honored to welcome
22 five new Members with tremendous knowledge and

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1 experience.
2 I would like to say that this
3 Committee is a Committee of superstars. First,
4 former Chairman of the Board of Governors of the
5 Federal Reserve, Dr. Ben Bernanke who is
6 currently a distinguished fellow in residence at
7 the Brookings Institution.
8 I had the honor of serving as a staff
9 attorney under Dr. Bernanke, Chairman Bernanke
10 during the financial crisis and I think the world
11 of him.
12 Second, Mr. Gary Cohn who recently
13 served as Assistant to the President for Economic
14 Policy and Director of the National Economic
15 Council and prior to that was President and Chief
16 Operating Officer of the Goldman Sachs.
17 Third, the Honorable Robert Drain, a
18 United States bankruptcy judge for the Southern
19 District of New York who is also the current
20 Chair of the Bankruptcy Judge's Advisory Group.
21 Fourth, Mr. Tim Mayopoulos, President
22 of Blend, a Silicon Valley technology company and

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1 former president and CEO of Fannie Mae and
2 general counsel of Bank of America.
3 And fifth, it is my pleasure to
4 welcome Ms. Sandie O'Connor, former Chief
5 Regulatory Affairs Officer for JPMorgan Chase and
6 former member of the Alternative Reference Rates
7 Committee and the Federal Reserve Bank of New
8 York's Treasury Markets Practices Group.
9 Welcome and thank you all for joining
10 our Committee. I would also like to welcome back
11 our returning Committee Members, all superstars.
12 We greatly appreciate the time and efforts you
13 have committed to the SRAC and I couldn't be more
14 honored to have you as Members of this Committee.
15 I look forward to hearing your
16 thoughts and ideas on our progress and next
17 steps. I will now hand the microphone over to
18 Rick Delfin, Director of the Division of Complex
19 Institution Supervision and Resolution to provide
20 an overview of today's meeting agenda and discuss
21 the creation of this new division. Thank you.
22 MR. DELFIN: Great. Thank you,

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1 Chairman McWilliams. And I hope you can all hear
2 me okay.
3 I want to thank you all for joining us
4 today. As the Chairman mentioned, my name is
5 Ricardo Delfin.
6 I'm the Director of the FDIC's new
7 Division of Complex Institution Supervision and
8 Resolution, the group responsible for
9 implementing the FDIC's systemic resolution
10 mission.
11 I'm sorry we need to do this by video.
12 But I very much appreciate everyone taking the
13 time to participate today.
14 As you probably are used to by now in
15 this era, there are a few sort of technology
16 related items to start that I just wanted to
17 flag. First, to improve the audio we ask that
18 everyone please mute their microphones when they
19 are not speaking, just to avoid feedback and help
20 the others' audio.
21 Second, though there is a raise hand
22 function on your screen if you would like to ask

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1 a question, we also want you to please feel free
2 to just jump in at any point and ask a question.
3 We very much want to get your thoughts and
4 feedback today and wouldn't want the technology
5 to get in the way of any of that.
6 Finally, while there is also a chat
7 function we would ask that everyone only use the
8 chat function to request technical assistance.
9 Because this is a public event under the Federal
10 Advisory Committee Act, we encourage Members to
11 please share their substantive thoughts and
12 comments as part of the normal discussion.
13 Having gotten all of that out of the
14 way, we can now move on to the heart of the
15 meeting. Today we would like to update you on
16 the work that we've done here at the FDIC on the
17 systemic resolution as well as the progress we
18 have made and the topics still being tackled.
19 As you know, following the 2008 global
20 financial crisis, Congress established new
21 authorities for the FDIC to manage the orderly
22 resolution of large complex financial

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1 institutions whose failure could threaten U.S.
2 financial stability.
3 One authority under Title 1 of the
4 Dodd-Frank Act requires that certain large
5 complex bank holding companies and designated
6 non-banks file resolution plans or living wills
7 that outline how the firm might be resolved in an
8 orderly way under the U.S. Bankruptcy Code, the
9 statutory first option for failure.
10 These plans are reviewed by the FDIC
11 and the Federal Reserve who can then identify
12 deficiencies or shortcomings in the plan for
13 remediation.
14 The second authority under Title 2 of
15 the Act establishes the orderly liquidation
16 authority or OLA. It is a backstop resolution
17 regime run by the FDIC to resolve large complex
18 financial institutions in circumstances when
19 failure and bankruptcy could threaten U.S.
20 financial stability.
21 This authority was based on the FDIC's
22 longstanding tools for traditional bank

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1 resolution. In the intervening years we have
2 engaged with this Committee at length to test our
3 thinking and solicit your thoughts and feedback
4 and we look forward to doing that again today.
5 To help at this stage, especially for
6 some of our newer Members, I thought I would look
7 back briefly at the evolution of our work and the
8 discussions within the SRAC.
9 We began the first SRAC meetings
10 focusing largely on the establishment of the
11 Orderly Liquidation Authority and a core
12 resolution strategy called the single point of
13 entry strategy.
14 The shorthand you might hear today is
15 the phrase SPOE. Under this strategy the FDIC
16 would put a failing G-SIBs holding company into
17 receivership, use or bail in the firm's pre-
18 funded resources to recapitalize its material
19 entity subsidiaries, and transfer the
20 subsidiaries and other assets to a new,
21 stabilized bridge financial company.
22 Because firm's critical operations are

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1 housed in the newly recapitalized material entity
2 subs, the critical operations should be
3 maintained and financial stability impacts can be
4 mitigated.
5 As this strategy develops we then
6 discussed a number of structural reforms and we
7 put those in place in the U.S. and around the
8 world to help operationalize this strategy. The
9 reforms included the promulgation of a number of
10 rules.
11 For example, ensuring that certain
12 financial companies have a minimum amount of
13 long-term debt or TLAC, total loss of absorbing
14 capacity.
15 We also promulgated a role with the
16 Federal Reserve to promote clean holding
17 companies which would simplify the debt stack of
18 these firms to better enable the bailing in of
19 that debt and resolution.
20 And we also facilitated, passed rules
21 to facilitate the orderly transfer of qualified
22 financial contracts to a bridge entity in order

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1 to help avoid early termination fostering
2 financial stability.
3 Over time firms and regulators also
4 began to recognize the potential benefits of the
5 SPOE strategy to the bankruptcy planning or
6 living will process that we discussed earlier.
7 We and our partners at the Federal
8 Reserve identified key obstacles to SPOE
9 resolution and bankruptcy and provided guidance
10 to firms as to how these obstacles might be
11 mitigated or addressed.
12 We continued to meet with this
13 Committee as the process evolved and updated it
14 on work being done by firms through their Title 1
15 resolution plans to improve resolvability under
16 the Bankruptcy Code by addressing key obstacles.
17 Through the evolution of that work,
18 the Agency has found that firms had made
19 significant progress addressing these obstacles
20 and areas for ongoing work. Through this
21 engagement, we have also learned quite a bit
22 about this challenge and this process and we have

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1 adapted over the years based on the lessons we
2 have learned.
3 For example, in the early years
4 planning under bankruptcy and under OLA were
5 viewed as two entirely different processes with
6 different teams working on them.
7 Over time, however we found that
8 though there are important differences in each
9 process there is also a lot of overlap between a
10 single point of entry strategy under the OLA and
11 a single point of entry strategy in bankruptcy.
12 As a result, we changed our approach
13 to these processes and started leveraging the
14 best solutions to particular obstacles in our own
15 planning. And we also found that these two
16 efforts are complimentary.
17 That is the progress that firms make
18 improving their resolvability in bankruptcy, also
19 improves resolvability under OLA and vice versa.
20 Our concept of resolution planning also changed.
21 Over the years we moved off of what
22 people accused us of paper exercises and we

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1 deemphasized specific failure scenarios, knowing
2 that we would never guess the right ones, and we
3 began focusing more on resolution related
4 capabilities that could be usable in any
5 scenario.
6 Now, I don't know if anyone has ever
7 compared systemic resolution to gardening before
8 so I'll be the first. But this is when things
9 really started to come together and bloom for
10 lack of a better word and sometimes in unexpected
11 ways.
12 Interestingly, in addition to the
13 synergies we saw between Title 1 and Title 2
14 planning we also started to see nice synergies
15 between resolution planning and recovery and good
16 old fashioned risk management.
17 That is there are resolution planning
18 efforts that firms can take that pay dividends
19 outside of resolution and actually improve firm's
20 resilience and flexibility in an actual crisis,
21 which is the best outcome of all. And we're
22 going to talk about some of those today.

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1 These learnings and the changes we've
2 been making based on them will be the foundation
3 of our discussion today.
4 If all that sounds okay, I can get
5 started by highlighting some of the other
6 organizational changes we've made to strengthen
7 our mission and specifically the establishment of
8 the new Division of Complex Institution
9 Supervision and Resolution before moving on to
10 updates on the rest of the program.
11 With that, I'll just briefly pause for
12 questions and see if there is anything out there
13 and then I'll move on to talk about CISR. Okay.
14 Well, thanks.
15 So, CISR as I call it -- others have
16 different names, some call it CISR, some call it
17 CISR. C-I-S-R seems safest to me. CISR was
18 established in July 2019 to bring together the
19 FDIC's backup supervisory and resolution
20 functions for the largest most complex financial
21 institutions.
22 One of the early lessons we've learned

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1 was that large institutions are different.
2 Though the FDIC has incredible experience dating
3 all the way back to the Great Depression with the
4 smaller bank resolution, our experience with
5 large institution resolution is far more limited.
6 We simply don't benefit from decades
7 of trial and error with these firms or resolution
8 strategies. The scope of their activities, the
9 degree of complexity and the potential impact on
10 financial stability means the resolution options
11 and strategies are more constrained.
12 Given the unique characteristics of
13 each firm and the need to maintain critical
14 operations and avoid contagion, a deeper
15 understanding and advanced planning and active
16 cross-border coordination are critical.
17 Bringing together the supervision and
18 resolution teams for these institutions has
19 allowed us to leverage specialized skill sets,
20 simplify our structure and I hope, foster
21 collaborative interdisciplinary approach to this
22 challenge, one that enhances both our supervision

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1 and our resolution preparedness for the large,
2 most complex financial institutions.
3 The discussions today led by this new
4 team will display some of the practical benefits
5 of this ongoing integration. Substantively, our
6 agenda today is split among two broad sessions
7 with a 15 minute break in between, basically
8 based on the two statutory provisions, Title 1
9 and Title 2.
10 The first session will highlight the
11 key changes and updates we've made to the living
12 will process since our last meeting in 2018,
13 including some interesting lessons from this
14 spring's market volatility.
15 The second session will focus our work
16 on strengthening the resolution framework for
17 systemically important financial institutions
18 under the backstop Orderly Liquidation Authority.
19 There has been a lot of work to increase our
20 operational readiness and I look forward to the
21 input of this Panel.
22 This portion of the agenda will begin

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1 to focus on our progress and planning for G-SIBs
2 and then shift to a few updates on the non-bank
3 space focusing on recent FDIC/SEC rulemaking for
4 broker dealers and resolution planning for CCPs.
5 So, over the years we have learned a
6 great deal from these SRAC sessions and
7 discussions and we very much welcome your
8 thoughts or questions at any time throughout the
9 session. And I mean it, please don't hesitate at
10 all to raise your hand or frankly jump right in.
11 With that, I would be happy to take
12 any initial thoughts or questions that you may
13 have. And if not, I will hand it over to Lori
14 Quigley and Jason Cave, two of our corporate
15 experts who are leading the Title 1 process to
16 help talk through some of the work being done
17 with the Federal Reserve and specific
18 institutions on firm developed resolution plans.
19 So, unless there are any questions, I
20 just want to pause there. No, okay. Well,
21 thanks, everyone and I'll hand it over to Lori
22 Quigley and Jason Cave. Lori?

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1 MS. QUIGLEY: Thank you, Rick.
2 Hopefully you can hear me okay.
3 MR. DELFIN: Yes, sounds great.
4 MS. QUIGLEY: All right. So, Jason
5 and I will provide a brief update on a few Title
6 1 developments since the last meeting and then
7 we're going to turn it over to Jim McGraw who is
8 going to provide a meaningful discussion
9 regarding the lessons learned and on the COVID
10 response.
11 In our discussion this morning we're
12 going to touch upon the resolution plan process,
13 provide you a brief background on how the review
14 process works with the Federal Reserve. We're
15 also going to talk about the 2019 review and
16 findings for the eight U.S. G-SIBs.
17 There was also a critical ops,
18 critical operations project that occurred this
19 year that we'll just briefly talk about. And
20 then there was also an amended rule to the Title
21 1. So, we're just going to touch upon that as
22 well.

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1 So, with that I believe we're on Slide
2 5. And I'm just going to spend a few minutes on
3 the process when the plans come in. And this
4 process mainly pertains to the G-SIBs.
5 You know, we've been reviewing these
6 plans for about eight years now. And the Agency
7 has learned early on in this process that
8 coordinating jointly with the Federal Reserve on
9 the submissions was the appropriate way to assess
10 the credibility of these plans instead of working
11 separately.
12 So, we have continued that process
13 throughout. It starts by assembling joint teams
14 of subject matter experts who are assigned to key
15 aspects of the review in areas such as governance
16 mechanisms, capital, liquidity, derivatives in
17 trading, legal entity rationalization, areas like
18 that.
19 Each of these areas would have a joint
20 team that works together to assess the key
21 vulnerabilities and prepare their findings and
22 recommendations. The review typically takes

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1 about three to four months, followed by a number
2 of joint vetting sessions with senior leadership,
3 and ultimately the findings are then reviewed and
4 approved by the Board of both agencies.
5 During our review process we also have
6 engagement with the firms. We typically would
7 meet with them before the review starts. We
8 interact with them during the review as we start
9 looking at the plans and want to have some
10 clarifying questions to them and then certainly
11 when we provide the feedback letters which have
12 been issued publicly for any additional content
13 and feedback that we want to provide them.
14 So, the process has been fairly, I'm
15 sorry. The process has been fairly, you know,
16 consistent over these years. And, you know, with
17 all these different rounds we have also seen that
18 the firms continue to incorporate resolution
19 preparedness as an ongoing part of their day-to-
20 day management decisions, their processes and
21 their systems. And this also improves upon their
22 resolvability. So, we've seen this shift over

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1 the years of what the banks have been doing.
2 Along with that shift, the agencies
3 also have been evolving with these plan reviews.
4 This also started as an academic exercise. And
5 as we've gotten used the type of areas and
6 obstacles that they've had to address we are now
7 moving more towards capabilities type testing.
8 So, you'll hear that in the
9 conversations as we move forward. So, Jason is
10 going to discuss this as well. You know, we
11 recently did the review last year and we did look
12 at capabilities testing for governance mechanism.
13 So, with that I will turn it over to
14 Jason to talk about Slide 6 about the findings of
15 the 2019 U.S. G-SIB review.
16 MR. CAVE: Great. Thank you, Lori.
17 Can you hear me?
18 MS. QUIGLEY: Yes.
19 MR. CAVE: Okay, great. Well, good
20 morning. Thank you. Again, my name is Jason
21 Cave.
22 I'm going to take you briefly through

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1 the highlights of the feedback letters that we
2 provided to the eight U.S. G-SIBs last December.
3 The 2019 letters to the firms and all previous
4 letters as well are publicly available. I think
5 that transparency really helps the process.
6 The letters lay out scope of our
7 reviews. They note where the firms have made
8 progress and where further work is necessary to
9 enhance their resolvability.
10 As we note, on the slide there were no
11 deficiencies cited in the recent review.
12 However, as the letters note there were
13 shortcomings identified at some of the firms and
14 I'll discuss those briefly.
15 For the U.S. G-SIBs as a whole, the
16 Agency has found the firms have made meaningful
17 improvements since 2017. For some firms that
18 meant addressing shortcomings related to
19 derivative booking practices. For others it
20 meant simplifying organizational structures to
21 allow resources to flow where needed and stress.
22 For the group in general, firms developed better

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1 plans to facilitate continuity of access in the
2 payment clearing and settlement space, refine
3 their assumptions to more accurately size
4 liquidity needs and resolution, we call that
5 RLEN, and created more actionable and flexible
6 plans to divest of key businesses and operations.
7 We call that objects of sale.
8 Now, as we said 2019 was the year in
9 which we began in earnest to test the
10 capabilities of firm's ability to execute on plan
11 assumptions. And you really only have to look at
12 the public letters to get a sense of the growing
13 importance that we are placing on capabilities
14 testing in the resolution planning space.
15 In 2017, we used the word capabilities
16 once in the public letter to a particular firm.
17 And for the same firm in 2019 we use that same
18 word 20 times.
19 So, you know we like capabilities.
20 Now, what does it mean?
21 In the 2018 proposed guidance we
22 highlighted specific areas where capabilities or

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1 optionality should be developed and maintained to
2 demonstrate, and that's one of those key words,
3 that each firm has considered fully and is able
4 to mitigate obstacles to the successful
5 implementation of the preferred strategy.
6 The guidance and it gave some specific
7 examples, some areas that we focused on in our
8 recent review. For example, the guidance said
9 firms should have the capability to populate a
10 data room with potential divestiture information
11 and that we would be testing this capability by
12 asking firms to produce selected sale related
13 materials within a certain time frame and we did
14 that in 2019.
15 The guidance also highlighted the fact
16 that the ultimate success of the firm's preferred
17 resolution strategy relied upon the sound
18 governance mechanism framework, one that ensured
19 Board actions were executed and capital and
20 liquidity deployed at the appropriate time and
21 place.
22 Guidance noted that firms should

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1 demonstrate, there is that word again, that key
2 actions will be taken at the appropriate time in
3 order to mitigate financial, operational, legal
4 and regulatory vulnerabilities.
5 And that included triggers for one,
6 escalating information up the chain of command.
7 Two, for recapitalizing and funding key
8 subsidiaries before and during bankruptcy and
9 three, for ensuring the timely execution of
10 bankruptcy filings.
11 You'll see in the public letters that
12 we cited shortcomings in the governance mechanism
13 frameworks at some of the U.S. G-SIBs noting
14 concerns with some abilities, firm's abilities to
15 produce reliable and timely measures particularly
16 in stress.
17 And I think this illustrates the
18 importance that the Agencies are placing on a
19 firm's ability to demonstrate to us that the
20 enhancements made to the resolution framework
21 will work when called upon.
22 So, at this point Lori is going to

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1 take us through the work that we did on critical
2 operations. So, thank you.
3 MS. QUIGLEY: Thanks, Jason. So, yes,
4 so the rest of this slide talks about critical
5 operations which are those operations at certain
6 firms whose failure or discontinuance would
7 threaten the U.S. financial stability.
8 So, the critical ops determination is
9 an important process for Title 1 purposes. The
10 operations can be identified by either the
11 company's own process or jointly by the Agency's.
12 The FDIC also leverages the critical
13 operations identifications to inform our Title 2
14 strategies. We need to know what those critical
15 operations are so we can focus for Title 2
16 purposes.
17 You know, the goal is orderly
18 liquidation without any adverse impact on the
19 financial stability. So, it's important for both
20 sides of the house.
21 We also, the rule also addresses a
22 refresh of the critical ops at least every six

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1 years. Earlier this year in 2020, the FDIC and
2 the Federal Reserve jointly refreshed its
3 assessment of those markets and activities that
4 might give rise to a critical operation.
5 And then as we go forward the Agencies
6 also plan for the next review in the coming years
7 to include a broader evaluation of the framework
8 used to identify critical operations.
9 The last item that I'm going to
10 briefly talk about is Slide 7 and 8 which is the
11 Amended Resolution Plan Rule. As I mentioned
12 early, the amended rule was issued in October
13 2019 and became effective as of December 31,
14 2019.
15 The rule was implemented with a
16 graduated set of requirements based on the level
17 of risk posed by the U.S. financial system. We
18 specified new resolution plan submission
19 schedules which will reduce the frequency and
20 scope of the submission but it doesn't reduce the
21 high regulatory expectations for resolution
22 planning.

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1 The rule also increased the asset
2 threshold of firms that fall under the rule. And
3 on Slide 7 you'll see that the rule also
4 established three types of resolution plans.
5 Specifically, the full resolution
6 plan, the targeted resolution plan which is a new
7 resolution type, and it requires basically a
8 subset of information from the full rule, and
9 then there is a reduced resolution plan.
10 So, for the full resolution plan it's
11 basically the same requirements as the old rule.
12 We also introduced a process for the non-U.S. G-
13 SIBs to waive certain informational content
14 requirements at either the Agencies joint
15 initiative or the firms can also send in an
16 application to the Agencies for us to look at.
17 The targeted resolution plan is one
18 that we've been working on a lot more this year.
19 It's a subset of a full plan and it focuses on
20 more of the material topics of a full plan.
21 So, there's core elements that are
22 required in a targeted resolution plan. Those

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1 core elements are capital, liquidity and then the
2 firm's plan for executing a recapitalization.
3 These are key elements we want to see in each
4 submission.
5 There is also a part of the targeted
6 plan is to have any material changes since the
7 last plan submission.
8 And that would be significant changes to a
9 firm's business or operations, changes to laws or
10 regs. So, they would need to include that into
11 any targeted resolution plan.
12 What you may have seen is at the end
13 of June, the agencies issued a targeted plan
14 letter to the U.S. G-SIBs. So, one other piece
15 of the targeted plan is that the agencies can
16 provide areas in addition to those that they feel
17 are relevant and important.
18 So, at the end of June we did send
19 targeted plan letters to the eight U.S. G-SIBs.
20 The letter focused on the pandemic and the
21 lessons learned from the pandemic.
22 So, along with the core elements that

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1 they will submit in their targeted plan, which is
2 scheduled for July of 2021, the firms will also
3 be providing that additional content with their
4 plan.
5 The last plan is called the reduced
6 resolution plan. This is a very limited type
7 plan. There basically are just a few questions
8 that are asked of these firms basically around
9 their material changes to their organization
10 since the last review.
11 The next slide is a visual that shows
12 various categories on the filing groups. And
13 what I wanted to just focus on, on this slide are
14 really just how the cycles work.
15 So, what you'll see here is biennial
16 filers, triennial full filers and triennial
17 reduced filers. The biennial filers are
18 basically the U.S. G-SIBs.
19 They submit a resolution plan every
20 two years. The difference here is that it is
21 every two years. But they'll alternate between a
22 full plan and a targeted plan during that period

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1 of time.
2 So, next year we will be receiving
3 targeted plans from the U.S. G-SIBs and then two
4 years from that we would be receiving the full
5 plan.
6 The next group is the triennial full
7 filers. These are firms that are other than the
8 U.S. G-SIBs and that meet certain financial risk
9 based indicators that the Fed has created, which
10 I'm not going to get into those calculations.
11 But they're the other firms outside of the U.S.
12 G-SIBs that meet the criteria for Category 2 and
13 3 firms. These firms which the picture will be
14 more of the regional type firms and some FBOs,
15 they submit a resolution plan every three years.
16 And again, this will alternate between a full
17 plan and a targeted plan.
18 And then that last group, the
19 triennial reduced filers, they'll submit this
20 reduced resolution plan every three years. They
21 won't have to do that. Their first plan
22 submission will be in 2022. And again, that was

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1 just -- they basically have just a few questions
2 that they will need to provide us on material
3 changes.
4 So, next year we will be getting
5 targeted plans for all U.S. G-SIBs in July. In
6 the fall we should be getting targeted plans for
7 all of the Category 2 and 3 firms and as I
8 mentioned, the reduced filers won't file until
9 July 2022.
10 The rule among other things also makes
11 a few other improvements. It formalizes a
12 process for the firms and the Agencies to
13 identify the critical ops which I mentioned
14 earlier.
15 They also provide the Agencies notice
16 of any, the Agencies would also provide notice of
17 any deficiencies, shortcomings, any type of
18 feedback. What we say is that it would be no
19 later than 12 months after the resolution plan is
20 submitted, absent any extenuating circumstances.
21 And typically, what we've been trying to do is
22 meet actually a six month target.

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1 And then the agencies continue not to
2 prescribe specific or identify any preferred
3 resolution strategy for a firm.
4 So, those were the main points of the
5 amended rule. And now I'm going to turn it over
6 to Jim to discuss the lessons learned from COVID
7 response.
8 MS. HUGHES: Hi, Lori. I believe we
9 have a question from Mr. Kohn.
10 MS. QUIGLEY: Sure.
11 MR. REED: This is John Reed. Can I
12 ask a question?
13 MR. DELFIN: Please, go ahead.
14 MS. QUIGLEY: Certainly.
15 MR. REED: I'm interested as you've
16 been reading these plans can you tell that
17 they've engaged the management and the board or
18 are these plans being submitted from people who
19 are simply experts at doing so?
20 In other words, did your interaction
21 with the individual entities lead you to
22 understand to what degree the actual management

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1 is deeply engaged and to what extent their boards
2 are?
3 MS. QUIGLEY: So, thank you for your
4 question. And I'll start off and I'm sure Rick
5 and others can chime in.
6 But the short answer to that is, yes.
7 They are fully engaged. And we typically speak
8 with the C-Suite of folks at these companies on
9 their plans.
10 Around one of the areas that we focus
11 on which is governance mechanisms there is a very
12 big ask to make sure that the key decision makers
13 within these organizations are aware of the
14 processes and the reporting capabilities and
15 getting right metrics to make their decisions to
16 file for bankruptcy.
17 So, they have to prepare play books
18 and understand what metrics they receive around
19 capital and liquidity that they would need to
20 make that decision to file bankruptcy at the
21 right time, not too soon, not too late but at
22 that right time.

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1 So, they are truly engaged not only in
2 that process but across the whole resolution plan
3 process.
4 MR. DELFIN: I think Don Kohn had a
5 question too.
6 MR. KOHN: Actually, I hadn't, I
7 didn't deliberately raise my hand. But since I'm
8 on I'll ask a question.
9 And this is about content rather than
10 process. So, if you're going to get to this in
11 the next segment just put me off.
12 And it's about liquidity planning.
13 So, one of the things that we've heard through
14 the pandemic crisis but also even last, a year
15 ago September in the RP market spike is that the
16 ability to deploy liquidity by G-SIBs is
17 constrained in part by the resolution, the amount
18 of liquidity they need to hold for resolution.
19 And I would be interested in your
20 impressions as to, I'd like to know more about
21 that liquidity requirement and then your
22 impressions as to whether it's a constraint and

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1 whether there is any way to keep the resolution
2 system viable and the integrity of the resolution
3 system with a different, looser liquidity
4 constraint?
5 So, the interaction of the resolution
6 liquidity constraint and market liquidity and how
7 you see that. Thank you.
8 MR. DELFIN: Yes, that's a great
9 question. And you're absolutely right.
10 Right around the time that there was
11 the, you know, repo market volatility my
12 recollection is it was sort of fall/winter last
13 year, you know, BPI and others had highlighted,
14 you know, whether there were regulatory
15 requirements that might be complicating the repo
16 markets' and financial institutions' willingness
17 to participate.
18 Even though there was free money to be
19 had by switching from reserves at the Fed over
20 into repo for some reason during that period
21 financial institutions had not done that. And
22 that corresponded with, you know, changes in the

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1 size of the Fed's balance sheet and others.
2 So, among the areas that people were
3 looking at were whether, you know, LCR, whether
4 CCAR, whether res planning had some limitation or
5 effect on those decisions. We did a lot of work,
6 you know, did a lot of outreach to firms and to
7 the trade associations to understand whether there
8 was anything that we had done that could
9 complicate that.
10 We've looked at our rules at length and
11 we have no preference whatsoever between reserves
12 and repo, treasury repo. It's the same under all
13 of our resolution related requirements.
14 I think some of the points folks raised
15 was whether regulators had sort of signaled that
16 they weren't, that they didn't want firms to
17 participate or they didn't want firms to affect
18 that.
19 Vice Chairman Randy Quarles, you know,
20 went up to the Hill and clarified this, you know,
21 pretty well. I think it was a testimony to the
22 House Financial Services Committee around that

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1 time about making sure that, you know, regulators
2 were aware of any concerns and were looking at it.
3 And so, we haven't heard any problems
4 since. So, we think -- I'm going to knock on wood
5 as I say this, that there is nothing in the res
6 space that causes this problem.
7 Whether folks have an implicit
8 expectation, obviously we want to disavow them of
9 that. And if there are things that we're doing
10 that get in the way we want to know.
11 And we've asked that at length and we
12 haven't heard anything that gives us any concern.
13 MR. KOHN: Thank you.
14 MR. DELFIN: Good question and we did
15 look very closely at it, you know, during that
16 period. I would like to just before we hand over
17 unless there are any other questions out there.
18 Yes.
19 MR. BERNANKE: Yes.
20 MS. BAIR: Ben, go ahead.
21 MR. BERNANKE: I'm sorry, Sheila. You
22 talked about capabilities versus scenarios. And

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1 I understand that reemphasis.
2 But a couple of questions. One is what
3 about linkages to the stress testing? Is there
4 any kind of complementarity between stress testing
5 and your evaluations?
6 It seems like it would be useful
7 information there. Secondly, the concern I most
8 hear largely from uninformed people, but I often
9 hear is that these approaches will work maybe for
10 a single firm in stress but would not work in a
11 generalized crisis where many firms are under
12 stress.
13 And that seems like it would take some
14 scenario planning on your part to think about both
15 your resources and how those stresses would
16 interact between firms, et cetera to just pushing
17 a little harder on scenario versus capability.
18 MR. DELFIN: Absolutely. Thank you for
19 the question. On the first point which is stress
20 testing, so our res plan requirements do not
21 directly link to things like CCAR.
22 But our standards let's say for

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1 determining the liquidity positioning of firms or
2 also their liquidity needs tied to the firm's
3 internal liquidity stress test. So, we don't
4 impose an additional stress test on the firms.
5 But we do ask them to use their current
6 models and plug those in to resolution planning.
7 And so, we do want to build off, piggy back on
8 existing systems rather than create yet another,
9 you know, stress testing requirement.
10 You know, our supervisory teams who are
11 involved in the Title 1 process also participate
12 with the Fed on their CCAR process. So, we do
13 have a lot of learning just among the teams as the
14 benefit from stress testing and the work we do
15 here generally in terms of monitoring.
16 So, that's a nice synergy. But we
17 don't tie, let's say how you do on CCAR to how to
18 any requirements in Title 1, to be fair.
19 Second, your point about whether this
20 process is built for one or more than one failures
21 is an absolutely valid process. What we're
22 talking about here is bankruptcy planning.

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1 And, you know, we have to give the
2 firms some basic world that they're operating in,
3 in order to see if they can establish a credible
4 resolution plan.
5 You know, we could always go to a
6 darker and darker scenario and say well you have
7 to come up with a world where two firms fail or
8 five firms fail or you have to come up with a
9 world where we're in a pandemic.
10 We didn't do that. We allowed the
11 Title 1 process to be fairly idiosyncratic, that
12 is an individual firm failing, you know, in a
13 stressed but not, you know, not apocalyptic
14 environment.
15 And so that, you know, could play
16 itself out in terms of how policy makers think
17 about resolvability under bankruptcy. That being
18 said, there is no restriction or automatic limit
19 on that other than, you know, policy maker's
20 propensity to thinking about systemic risk
21 transmission of a firm in bankruptcy.
22 We do have, you know, for those kinds

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1 of scenarios the orderly liquidation backstop.
2 So, you know, you could imagine if one firm could
3 fail in bankruptcy maybe there's multiple firms.
4 Do policy makers start to pause and think that
5 maybe there is too much pressure being put on the
6 market?
7 That's conceivable and that's why we
8 have the OLA backstop so that the FDIC could step
9 in and, you know, wind down that firm in an
10 orderly way, you know, outside of bankruptcy with
11 some of the tools that we have that don't exist in
12 bankruptcy.
13 The OLA process has been questioned
14 over the years about whether it's available for
15 multiple firms. And I think that breaks down into
16 sort of, let's say three components.
17 You know, one is in terms of a statute
18 there is no limitation on our ability to do
19 multiple firms. You know, OLA kicks in. It can
20 kick in for a number of firms at the same time.
21 And it doesn't rely on a single pool of
22 assets that we would need that might be drained.

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1 That is our ability to access liquidity under the
2 Orderly Liquidation Authority is a function of the
3 assets available of the firm that's put into
4 resolution.
5 So, if multiple firms go into
6 resolution we have access to larger amounts of
7 liquidity, you know, subject to any constraints
8 that maybe the Treasury Department might impose.
9 So, statutorily, you know, we don't have a
10 challenge there.
11 In terms of, you know, how we
12 operationalize this strategy there are pros and
13 cons. You know, given the single point of entry
14 strategy we don't imagine that we need hundreds or
15 thousands of staff to be going through and
16 managing these companies.
17 We want to leverage our processes which
18 Ryan Tetrick will get into a little bit for hiring
19 CEOs and new boards to manage core portions of
20 these firms. Because we recapitalize the material
21 entities those can be going on, you know, almost
22 as they have subject to oversight by the FDIC,

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1 obviously.
2 So, you know, under that core
3 constraint there is again the ability to leverage
4 and execute more than one. But I'm going to put
5 a giant asterisk next to all of that.
6 And one of the issues, you know, with
7 all these strategies is they are untested. And
8 so, if we take a strategy that's untested and we,
9 you know, want to apply it to multiple firms at
10 the same time, that's going to reveal things that
11 we haven't thought of certainly.
12 I will say one of the benefits of all
13 of this planning is to avoid having to do more
14 than one at a time. That is to say, you know,
15 because of the lack of options available when Bear
16 Stearns was failing then the government had to
17 step in and provide support for, you know,
18 JPMorgan's acquisition.
19 And that created or somehow created
20 market expectations of additional support for
21 future acquisitions like Lehman Brothers. And the
22 idea is if the Orderly Resolution Authority exists

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1 to address that failure at the beginning then we
2 won't create false market expectations and we
3 won't have to do additional failures because the
4 knock on effects of one failure won't be as great.
5 Now if everyone is suffering from the
6 same problem at the same time that's absolutely
7 valid and we have to prepare for that obviously.
8 That might be a very long-winded answer. I hope
9 that was helpful.
10 MR. BERNANKE: Thank you.
11 MR. DELFIN: Sure, thank you.
12 MS. BAIR: So, Rick, if I could jump in
13 here.
14 MR. DELFIN: Yes, Chairman Bair.
15 MS. BAIR: This has been great. It
16 really is good work. You know, if we have another
17 crisis it will probably be different from the last
18 crisis.
19 MR. DELFIN: Certainly.
20 MS. BAIR: You can't assume that what
21 we went through in 2008, 2009 is going to happen
22 again. I'm just looking at the, from the outside

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1 looking in the impact on the financial system from
2 this pandemic.
3 It seems to me this time around the
4 very large complex institutions, because they have
5 big trading and investment banking operations,
6 they're benefitting from a lot of the
7 interventions that the Fed has taken, whereas the
8 regionals that are more bread and butter, take
9 deposits, make loans, you know, they're under
10 challenge with increasing credit losses,
11 compressed net interest margins and there are more
12 of them, to Ben's point about the risk of multiple
13 failures.
14 MR. DELFIN: Right, right.
15 MS. BAIR: So, for that segment can you
16 just reflect on your feeling of preparedness there
17 and also the longer cycles for resolution planning
18 for those firms, does that present any particular
19 challenges in terms of making sure your
20 information stays fresh and --
21 MR. DELFIN: Absolutely.
22 MS. BAIR: -- you will be nimble if you

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1 get in a situation where you get distress in that
2 sector?
3 MR. DELFIN: Yes, great question.
4 Thanks, Sheila. And Ryan Tetrick can jump in,
5 too.
6 So, there are a number of things we've
7 been doing in that space. Let's call it the
8 regional bank resolution space.
9 First, as part of the creation of CISR
10 was to build synergies not just between
11 supervision and resolution on the CEPI side but
12 also between supervision and resolution on what we
13 call large bank side. So, our portfolio now
14 extends to, you know, all institutions above 100
15 billion assets in the U.S.
16 And the reason we did that was to make
17 sure that we can use the best practices of
18 resolution from FEIAC space and from, you know,
19 OLA space. And that has come together quite
20 nicely. And so, now we have longstanding work
21 being done in the large bank space on let's say
22 making deposit determinations under Part 370 or

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1 QFC recordkeeping rules. We also had a great
2 program going on to identify leaders for large
3 IDIs and a contracting process so that we could
4 leverage outsiders in order to effectuate, you
5 know, those large IDI resolutions.
6 MS. BAIR: Right.
7 MR. DELFIN: On the CEPI world we
8 developed, you know, great cross border
9 interaction. We developed a process for thinking
10 about, you know, the steps in resolution and
11 exercises, test that. Now that we have that team
12 together we are actively working on how to build
13 those relationships better so that we can take the
14 best of each to apply to, you know, large banks.
15 It's true that there are different challenges
16 there in large bank versus CEPI. The pros are,
17 you know, they would be resolved under traditional
18 FEIAC resolution which is something the FDIC has
19 done, you know, since the Great Depression.
20 They are in many senses, you know, much
21 less complex, much simpler, you know, classic.
22 It's very, very, very large community banks but

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1 with enormous deposit books. And those are
2 operational challenges that we have worked through
3 with our 370 Rule and others. So, there are pros
4 and cons in that resolution relative to CEPI.
5 One of the benefits of our new
6 structure is, you know, we can piggyback on our
7 supervisory engagement as we have supervisors who
8 look at these firms all the time. And now that
9 the supervisory teams and the resolution teams are
10 together we are much more agile in terms of
11 talking to each other, sharing information and
12 thinking about the challenges associated with
13 these firms than we were before. So, that's been
14 pretty positive.
15 MS. BAIR: So, is the working
16 assumption underlying your approach to the large
17 regional is that, so they all have holdcos though
18 too, right?
19 MR. DELFIN: Sure, yes.
20 MS. BAIR: Most of the operations are
21 run through subsidiaries. But would you bifurcate
22 and put those in bank, the holding companies in

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1 bankruptcy or are you anticipating using Title 2
2 so you can holistically approach or is it going to
3 depend?
4 MR. DELFIN: Yes. I think the key
5 question is, you know, is single point of entry
6 available for resolution? And so, for the CEPIs
7 we think of single point of entry as sort of the
8 foundational approach because they have large non-
9 bank books and there is, you know, a lot of TLAC,
10 loss absorbing capacity of the holdco. They have
11 clean holdco rules. And so, SPOE is available
12 there. You know, the larger banks that aren't
13 CEPIs, they are really large IDIs. They have a
14 holdco but they don't have a big non-bank book.
15 So, any losses or risk are likely to
16 flow, you know, from the IDI and without, you
17 know, significant loss of serving capacity at the
18 holdco. And that makes SPOE, you know, less
19 likely and traditional FEIAC resolution more
20 likely. Not impossible, but it's really a
21 function of whether there is loss absorbing
22 capacity available at the holdco to recapitalize

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1 the bank.
2 MS. BAIR: Okay, thank you.
3 MR. DELFIN: Sure.
4 MS. HUGHES: Rick, we have a question
5 from Rodgin Cohen.
6 MR. DELFIN: Yes. Hi, Rodgin.
7 MR. COHEN: Hey, Rick. And thank you
8 so much for everything you and your colleagues
9 have been doing. The question really goes back to
10 Chairman Bernanke's point. And it really is this.
11 There are similarities between what happened in
12 the spring of this year and 2008 in that the Fed
13 had to come in with massive intervention.
14 The difference was it intervened in the
15 markets not with individual institutions. But the
16 (audio interference) was getting the problem
17 started out by (audio interference). This time
18 the industry was strong enough to withstand. But
19 it does seem to me that more needs to be done to
20 the (audio interference) system (audio
21 interference). I am not sure that (audio
22 interference) is the answer. I think there is a

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1 problem (audio interference).

2 MR. DELFIN: I think we lost you there

3 at the end, Rodgin.

4 MR. COHEN: I'm sorry. There is a

5 problem to (audio interference) in terms of how

6 (audio interference) and I'm wondering (audio

7 interference).

8 MR. DELFIN: So, it was a little faded

9 on the audio. But I think the point was the

10 difference between this crisis and the previous

11 crisis or this, you know, current environment with

12 the COVID crisis and, you know, the global

13 financial crisis with the difference between

14 whether the risk is flowing from the banking

15 system or to the banking system and how folks are

16 thinking about that.

17 And I think you know, Rodgin was

18 suggesting that more work needs to be done, you

19 know, outside the banking system there. I leave

20 that issue to policy makers, you know, down

21 Pennsylvania Avenue to determine, you know, what

22 steps. I know that Congress has taken a number of

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1 actions with the CARES Act and whatnot in order to
2 provide support to the real economy. But whether
3 more needs to be done or not that's above my
4 station. I'm focusing on how we think about
5 systemic resolution of banks if necessary and
6 obviously everything we can do to avoid that.
7 MS. O'CONNOR: Rick.
8 MR. DELFIN: Yes.
9 MS. O'CONNOR: Sandie here. Thank you
10 again for all of the great work that's gone on.
11 I have a question for you. Clearly we're talking
12 a lot about the resolvability under Title 1 or
13 Title 2. But one of the important components
14 before we get to that was the material change in
15 the resiliency of the system individually and in
16 aggregate.
17 And I guess the question I have for you
18 is, you know, to the extent that what would take
19 any of the particularly the largest firms to go
20 into bankruptcy is substantially larger, has the
21 thinking around resolution planning shifted away
22 from a specific event that could push you into

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1 bankruptcy but rather to what is the aggregate
2 size that you want these organizations to be able
3 to survive before they would ever have to go into
4 Title 1 or Title 2?
5 MR. DELFIN: Sure. I think the answer
6 is both. That is to say, you know, obviously on
7 the supervisory side, you know, through CCAR and
8 other groups, supervisors are doing a lot of work
9 to talk about what stresses can firms survive and
10 everything we can do to, you know, avoid failure
11 all together and ensure that there are sources of
12 strength for their financial system so that we
13 don't spiral into any kind of financial crisis or
14 breakdown in critical operations.
15 You know, our world is thinking about
16 okay, if we get to the point where a firm fails
17 basically how much reserve, how much loss
18 absorbing capacity do they need to have in order
19 to effectuate their strategy which I think is, the
20 first part of your question. Like, how much of a
21 buffer do they need? And so, you know, through
22 the firms, you know, they use their internal

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1 stress tests to think about how much loss
2 absorbing capacity do they have of each their
3 material entity subs which allows them to think
4 about when should they file the trigger on
5 bankruptcy because they know that at this point
6 they have sufficient resolution capital and
7 resolution liquidity to effectuate their SPOE
8 strategy in bankruptcy.
9 So, I think both aspects are happening.
10 That is work on avoiding failure all together
11 through stress testing and, you know, what is the
12 reserve amount, the TLAC amount that needs to be
13 held so that their strategy can be executed and
14 the firm can be recapitalized.
15 MS. O'CONNOR: Thank you. I just think
16 that those two together ultimately relate back to
17 what Chairman Bernanke's piece was these are
18 individual plans because of the shock absorbency
19 and resiliency and I think the incremental buffers
20 you actually do get some level of, you know,
21 protection against cross contamination although
22 it's getting better. Thank you.

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1 MR. DELFIN: Thank you. Any other
2 questions?
3 DIRECTOR GRUENBERG: Rick, if I could
4 just make a follow up on Rodgin's point for a
5 second. I think your reticence in terms of
6 getting into the non-bank financial institution
7 issue is understandable. But, you know, the fact
8 is under Title 2 for better or worse the authority
9 is broad so that it's not limited to bank holding
10 companies. And indeed, you know, later in today's
11 program you're going to talk about some of the
12 work we've done relating to broker-dealers and to
13 central clearing counterparties.
14 So, at the end of the day from a
15 resolution standpoint any financial company, bank
16 or non-bank, if it poses a systemic risk would end
17 up under Dodd-Frank in a Title 2 scenario. So, I
18 don't know that we can entirely avoid that issue
19 and in fact we're having to spend some time on the
20 resolution side of it which only indicates, comes
21 back to I think the point that Rodgin is making is
22 that the nature of these risks can't be limited to

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1 the banking system and we're going to
2 increasingly, I think, have to think about them in
3 an interconnected and integrated way. I just
4 thought I would raise that point because I thought
5 it was a good one that Rodgin was raising.
6 MR. DELFIN: And we have done a lot of
7 work on the non-bank space. Obviously, you know,
8 not as much as on the G-SIB space and we'll get
9 into that a little later in the agenda today. But
10 I think that's, you know, actually a fair point.
11 So, maybe just to recap from, you know, Lori and
12 Jason's point on Title 1 before we hand off to Jim
13 because we actually have a great segue to Jim
14 McGraw dealing with, you know, how this process
15 revealed itself through the recent market
16 volatility.
17 You know, folks who were, you know,
18 part of this even just watching it in the early
19 stages, you know, there were a number of
20 criticisms of the Title 1 process just to be
21 blunt. One was, you know, firms didn't know what
22 was expected of them. They also felt like, you

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1 know, the FDIC and the Federal Reserve might be
2 expecting different things from them.
3 We had criticism about whether the
4 process was a black box that is, you know, they
5 file a plan and then they wouldn't hear anything
6 for a period of time and then the firms might get
7 something back. You know, we had people talk
8 about well what kind of scenario do you want here?
9 I mean, do you want us to imagine, you know, an
10 asteroid or do you want us to imagine something
11 that we don't think will ever happen? And there
12 was a lot of back and forth on that.
13 And we also got, you know, a fair
14 number of comments and Dick Herring here among
15 there who pointed out just the need for more
16 public transparency around the process. And so,
17 it's just important to point out the steps that
18 have been taken to address each of those
19 criticisms.
20 In terms of a firm's not knowing what
21 to expected of them the agencies really did a lot
22 of work to provide specific guidance to the firms

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1 about expectations. You know, we heard also that
2 there might be this one size fits all approach.
3 And so, as this amended filing group show we
4 really took a close look at what requirements
5 should apply to what type of firms and that the
6 burden should go down, you know, as the firm, you
7 know, was much less risky to the financial system.
8 In terms of the black box, Lori talked
9 about how we did a lot of engagement and we
10 continue to do engagement with the firms so that
11 they understand, you know, what we're looking for
12 and why and that helps avoid a whole lot of, you
13 know, misunderstandings through the process.
14 Instead of focusing on scenarios we focus on
15 capabilities so that we can use these capabilities
16 in any scenario. And Jim will talk about how some
17 of these capabilities came in, you know, quite
18 useful and continue to be quite useful for
19 avoiding resolution all together.
20 On transparency, you know, we did a lot
21 of work, you know, not only to make the guidance
22 public but then put the guidance out for notice

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1 and comment, but we also, you know, have pushed
2 the firms to do more on their public plans so that
3 the public can actually take a look and see, you
4 know, how does single point of entry in bankruptcy
5 work? You know, what kind of changes have firms
6 made? That's really helped us improve the
7 public's understanding of the process and that's
8 a place where people can go to ask firms specific
9 questions of, you know, we certainly otherwise
10 wouldn't be able to answer.
11 So, from this process we've had a lot
12 of benefits including a number of, you know,
13 unexpected benefits for Title 2 which Ryan will
14 get into later and also for just our general
15 supervision. And so, you know, with that sort of
16 background in mind, I was going to hand it over to
17 Jim McGraw who is our Deputy Director for Risk
18 Assessment and CISR. And Jim is going to talk
19 about just some of the lessons learned, you know,
20 from the recent market volatility and how some of
21 the Title 1 plan work and other supervisory work
22 really came into play to strengthen the financial

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1 system. Jim?
2 MR. MCGRAW: Thanks, Rick.
3 MR. DELFIN: Sure.
4 MR. MCGRAW: Thanks, Lori and Jason,
5 too for the previous segment. I assume everyone
6 can hear me okay. So, welcome everyone. Good
7 morning. My name is Jim McGraw. I'm the Deputy
8 Director of the CISR Risk Assessment Branch.
9 We're more of the, we're the supervisory oversight
10 and the risk monitoring side of the house.
11 So, if you think about the CISR mission
12 of protecting and maintaining stability in the
13 financial system by avoiding and if necessary
14 managing the failure of a large complex
15 institution, I kind of see our responsibility
16 within the Risk Assessment Branch more of the, you
17 know, the avoiding the failure part of the
18 mission.
19 I will echo earlier comments that Rick
20 had made. You know, there has been a significant
21 benefit in bringing together the specialized
22 supervisory staff within the Risk Assessment

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1 Branch with the specialized resolution staff
2 within the Resolution Readiness Branch, you know,
3 into this one division in CISR.
4 And that point will be evident during
5 this portion of the discussion this morning as we,
6 you know, as we discuss the interconnections
7 between supervision and resolutions and how the
8 advances in both have proven beneficial during
9 this most recent pandemic and corresponding
10 economic stress. We'll be discussing lessons
11 learned by both the industry and the agencies and
12 how that will impact, you know, future supervisory
13 and resolution planning efforts.
14 So, I'll start off highlighting, you
15 know, the supervisory advances and Title 1
16 advances have been made since the passage and
17 implementation of the Dodd-Frank Act. And what I
18 want to do here is provide some background into
19 how the, you know, the financial industry has
20 benefitted from, you know, the supervisory gains
21 and the Title 1 advances in terms of being more
22 financially and operationally resilient heading

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1 into this pandemic and corresponding market
2 volatility.
3 We will also point out, you know, the
4 current market and economic stress has highlighted
5 some areas where both, you know, supervisory
6 agencies and banking industry must continue to
7 work. And we'll talk about, you know, next steps,
8 looking to next steps that we need to take to
9 ensure that firms remain viable and, you know, if
10 needed have the capability to execute on their
11 living will plans.
12 So, moving to Slide 10 and really 10
13 and 11 both. From the supervisor side of the
14 house what I wanted to do is highlight evidence of
15 the advances made in the areas of capital and
16 liquidity post 2008 and focusing on the firms
17 within the scope of the enhanced regulations. Both
18 of these slides demonstrate that bank holding
19 companies are much stronger both from a capital
20 perspective and a liquidity perspective than they
21 were going into the 2008 financial crisis.
22 As you can see on Slide 10, you know,

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1 the bank holding companies looking at average CET1
2 ratios, you know, comparing Quarter 1, 2008. Now
3 keep in mind those are proxy calculations that
4 we're doing that CET1 wasn't part of the framework
5 then. But if you look back at Quarter 1, 2008,
6 you know, CET1 was around six percent for firms
7 between 50 and 750 billion and about 5.25 for
8 firms over 750 billion. That's increased to right
9 at or just under 12 percent for both sets of firms
10 heading into the first quarter of 2020.
11 These higher capital levels are the
12 direct result of, you know, capital stress testing
13 requirements. Rick has mentioned CCAR several
14 times. You know, capital stress tests and
15 requirements through supervisory programs such as
16 CCAR, enhanced BASEL III standards, Collins
17 Amendment, et cetera.
18 You know, these supervisory programs
19 and regulations have moved institutions to
20 strengthen capital management, strengthen capital
21 planning programs and, you know, strengthen
22 overall capital governance to ensure that, you

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1 know, firms have sufficient capital to operate and
2 maintain the ability to lend through times of
3 economic crisis or stress.
4 We've also seen advances, you know, in
5 stress testing. I know that came up in the Q&As
6 just a little bit ago. You know, we've seen
7 advances in stress testing and model risk
8 management that have played a key role in the
9 supervisory process. But those advances have also
10 benefitted Title 1 planning as well both from the
11 capital side and the liquidity side.
12 And then moving over to Slide 11 we can
13 also see there, you know, from the liquidity side,
14 liquidity levels when we look at this thinking of
15 high quality liquid assets such as U.S. Treasury's
16 and agency debt and then looking at that as a
17 percent of total assets. You know, we're double
18 at around 20 percent coming into this, you know,
19 the pandemic where we were in the 2008 financial
20 crisis. And again, you know, supervisory programs
21 regulations looking at, you know, LCR rule,
22 liquidity stress testing, that was mentioned

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1 several times during the Q&A, the internal
2 liquidity stress testing.
3 These have all played a key role in
4 these enhanced liquidity positions helping to
5 build similar to the capital side, you know,
6 liquidity buffers for firms to absorb liquidity
7 shocks caused by economic stress and again ensure
8 that they're able to continue to lend and meet the
9 needs of the broader economy.
10 Another point I'll make it's, you know,
11 when we talk about stress testing, you know,
12 whether it's related to capital or liquidity, you
13 know, talking about lessons learned during this
14 most recent pandemic and market volatility we've
15 learned that, you know, through this period of
16 stress it's important to reassess stress testing
17 models to ensure that they're able to adequately
18 incorporate, you know, current significant stress
19 assumptions. You know, that we've had significant
20 levels of consumer and client forbearance
21 programs. We had a significant spike in
22 unemployment that went to levels that weren't seen

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1 during the prior crisis.
2 So, making sure that the firms are able
3 to adjust and reassess their stress testing models
4 to incorporate these new circumstances is very
5 important. And as the firms strengthen their
6 stress testing programs, you know, there is a
7 benefit again not just to the risk management side
8 but also to the resolution planning practices as
9 well.
10 Moving to Slide 12. So, we talked
11 about the benefits from the supervisory side
12 focusing on capital and liquidity. What I wanted
13 to do is focus a little bit of the discussion on
14 the Title 1 living wills and, you know, noticeable
15 advances that have been made in the areas of
16 governance, liquidity and operational
17 capabilities. Start off noting, you know, Title
18 1 advances over the past several years have been
19 incorporated into the firm's governance process.
20 And they've created a synergy or an
21 interconnection with risk management functions.
22 On the governance side as part of Title

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1 1 firms have developed or enhanced more holistic
2 crisis management processes that incorporate, you
3 know, capital and liquidity triggers, crisis
4 management play books, all for managing along the
5 crisis continuum. And this integration creates,
6 you know, a synergy between the firm's governance
7 process for managing increasing severity of stress
8 and its linkages to resolution preparations.
9 During this spring's market volatility,
10 you know, Title 1 advances, you know, and shared
11 services, mapping of critical services, governance
12 play books all prove to be helpful for adapting to
13 the market uncertainty. Firm internal crisis
14 committees, crisis management play books, global
15 communication strategies all have played a key
16 role in dealing with the unprecedented operational
17 challenges that firms have faced over the last
18 several months.
19 You know, during this period we saw
20 crisis management play books that were
21 supplemented with updated pandemic specific
22 content, again to address the operational

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1 challenges that the firms have faced.
2 We also saw where, you know, firms
3 global communication strategies were employed to
4 provide proactive and frequent updates to key
5 stakeholders, including regulators, us, you know.
6 And the good and interesting news here is that,
7 you know, the resolution tools and preparations
8 prove to be helpful in an unexpected non-
9 resolution crisis.
10 On the liquidity front, we've observed
11 that firms now have a better understanding of key
12 funding interdependencies between affiliated
13 material entities as we have had to manage funding
14 flows between affiliates during the market
15 disruption. And this is a result of significant
16 work over the years including but not exclusively
17 just to Title 1. But where, you know, funds were
18 required to identify and understand material
19 inter-affiliate funding relationships and develop
20 a process to manage those funding relationships.
21 Title and liquidity developed metrics have proved
22 helpful in tracking firm's liquidity positions

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1 through stress.
2 During the height of the market stress,
3 you know, in a period, you know, where there were
4 significant margin calls we saw that additional
5 information and liquidity including at the top of
6 the house provided important flexibility for these
7 firms to be able to downstream funds as needed or
8 where needed to address liquidity mismatches.
9 On the operational side, firms have
10 over the years devoted significant resources and
11 efforts to identifying and mapping critical
12 services and the relationships between affiliates
13 and third party service providers as part of their
14 Title 1 planning. And understanding these
15 relationships has helped firms develop, you know,
16 adapt and develop more robust business continuity
17 plans, you know, in the case of a severe business
18 disruption which obviously we experienced at the
19 start of the pandemic.
20 For example, during the height of the
21 market disruption back in the late winter, early
22 spring, you know, key essential personnel the

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1 firms were able to quickly identify those
2 personnel which allowed the firms to develop and
3 execute plans for transitioning to more remote
4 work as opposed to needing to have personnel on
5 site.
6 As part of the Title 1 work firms have
7 been reviewing material entity structures and
8 relationships with the goal of reducing
9 complexities. And these efforts have resulted in
10 a reduction of, you know, unnecessary funding
11 paths through entities establishment of more
12 consolidated funding hubs, consolidation of
13 material service entities and ensuring that, you
14 know, servicing contract arrangements between
15 affiliates and third party service providers are
16 more resilient.
17 In addition, firms have conducted
18 reviews of third party service providers, their
19 own resiliency plans which, you know, was
20 something that was -- became a very important part
21 of the process, you know, through this most recent
22 market disruption.

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1 So, in summary when looking at Slides
2 11 through 12 just, the point I wanted to make
3 here really is, you know, the advances in
4 supervision and the advances in Title 1 have
5 strengthened the overall financial condition and
6 operational resiliency of the bank holding
7 companies going into the pandemic. The
8 improvement in capital liquidity and the
9 resolution plan reforms, you know, were designed
10 to prevent an endogenous, you know, risk within
11 the financial system from becoming systemic, you
12 know, by strengthening the financial firms within
13 the supervised U.S. system.
14 And for that I think there were
15 positive signs during this period that we've been
16 going through. We thankfully haven't reached any
17 resolution related points. But while that's the
18 case, you know, we have seen where governance
19 indicators and protocols have improved
20 communication flow and escalate decision making
21 within the firms.
22 MR. FISHER: Jim, this is Peter Fisher

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1 up at Dartmouth. I wonder if I could ask you to
2 reflect a little bit on two different things it
3 feels to me you're saying. One is evidence that
4 before the COVID shock of March there were signs
5 the financial system was stronger. But there is
6 something else you're saying which is the fact
7 that we didn't see any bad outcomes in the
8 financial system afterwards proves the system was
9 more resilient.
10 And I just wonder whether you really
11 believe that, whether the bold actions by the
12 Federal Reserve to liquify the system gave us the
13 opportunity to observe whether the collective
14 balance sheets and the banking system were or were
15 not more resilient? I mean, I'm a little nervous
16 about some hindsight by us going on here. Any
17 thoughts on that?
18 MR. MCGRAW: Yes, I would agree. I
19 mean, I think one of the things we're doing, you
20 know, I would say we're not saying that we're
21 fully, you know, we're still looking back and
22 there are lessons that are going to need to be

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1 learned. And we recognize that there was
2 significant action taken by the Federal Reserve
3 back in the spring. And the firms did benefit
4 from those actions.
5 And I think we do have to look back and
6 see, you know, are there lessons that we could
7 learn from that where there is still room for
8 these firms to improve? So, I don't want to make
9 it sound like we're just, you know, that my view
10 is that, you know, hey we made it through
11 everything is fine. You know, I think there are
12 things that we, there are lessons that are going
13 to need to be learned through this. And one of
14 those is, you know, the Federal Reserve did step
15 in significantly and, you know, are there things
16 there that we need to, you know, lessons we need
17 to take from that as a supervisory agency?
18 MR. DELFIN: And, Jim, can I jump in
19 real quick too?
20 MR. MCGRAW: Sure.
21 MR. DELFIN: You know, Peter, I think
22 the point is actually a little simpler than you're

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1 making it. I think just pointing out first that
2 the fact is financial institutions and the firms
3 in our portfolio had substantially more capital
4 and liquidity going into the COVID crisis than
5 they did into '08. That's just a fact. And when
6 the crisis revealed itself it revealed itself in
7 a number of risks that were unexpected. You know,
8 everyone having to work from home at the same time
9 was an enormous operational risk. It's not one
10 that we would have directly planned for. But it's
11 amazing that all worked.
12 And one thing Jim's pointing out is
13 that along the way like, yes, the government
14 stepped in and provided significant support and
15 we're not minimizing, you know, what the causes of
16 that were or its impact in helping to stabilize
17 the system. But only that we also saw real
18 benefits from the kind of resolution planning work
19 that the firms did. That is to say, you know,
20 through the Title 1 process firms had to map out
21 their shared services.
22 Well, that was really helpful when they

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1 had to think about whether people had to work from
2 home in certain jurisdictions around the world.
3 Now that they knew where their key employees were,
4 they knew where the shared services were being
5 provided they could adapt much more quickly than
6 if they hadn't had that in place. Having clear
7 lines for liquidity were really helpful in making
8 sure that if you had to move money at the time
9 when people were hoarding dollars that you could.
10 That's a benefit. We're not making some sweeping
11 statement that the financial system is suddenly
12 safer than it was before.
13 But I think we are pointing out that
14 the large institutions which are key cogs
15 providing critical operations, knock on wood as I
16 say this, you know, performed pretty well at
17 providing those services.
18 MR. FISHER: I'm particularly anxious
19 about the inference about liquidity that we
20 learned something about how liquid the firms were
21 in March and April. And I just emphasize
22 liquidity in this sense is not a quantity, it's a

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1 behavior. It's the willingness and ability of
2 counterparties to do the other side of whatever
3 you need to do. And we discovered that it was not
4 there and that's where the Federal Reserve
5 intervention made a big difference.
6 But I just don't think we can both say
7 the Federal Reserve intervention made a huge
8 difference and say we had a good test of the
9 liquidity management practices of the firms. I
10 just don't think we can say both of those things
11 at the same time.
12 MR. DELFIN: That's fair. We don't
13 have the, you know, we don't have the alternative
14 time line obviously to go down to say what would
15 have happened to liquidity management at the firms
16 if the Fed hadn't stepped in. But we also don't
17 know if, you know, Fed stepped in, in order to
18 provide liquidity to other parts of the financial
19 system, you know, that were, you know, under
20 stress.
21 MR. FISHER: Thanks.
22 MR. DELFIN: So, that's fair. And

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1 we're not opining on the financial system more
2 generally or, you know, the other spots, only
3 that, you know, we think these tools were more
4 useful in BAU than we would have expected.
5 MR. FISHER: Thank you.
6 MR. DELFIN: Sure.
7 MR. PETERSON: Jim, this is Doug
8 Peterson. One question I have, first of all I'm
9 very pleased to see so much collaboration and
10 cooperation and how far all this work has advanced
11 over the last five or six years. So,
12 congratulations on that. Related to the banking
13 system overall if you think about what has taken
14 place the last four or five years I believe that
15 the banks have also de-risked their balance sheets
16 in many, many ways.
17 They've sold off a lot of their riskier
18 assets. They shrank their balance sheets many
19 times as opposed to increasing their capital
20 directly. They went around it different ways.
21 So, one of my questions would be is one of the
22 benefits of what we're seeing now is that the

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1 banks are actually not as risky as you look at
2 their balance sheets, the trading their doing, the
3 quality of their assets?
4 And the second thing I would say is
5 that right now at least in our, what we're seeing
6 in our rating agency is that commercial real
7 estate is flashing red right now. And I think
8 that there could be a secondary impact coming
9 through on the bank's balance sheets, especially
10 those with a lot of commercial real estate on
11 their balance sheets.
12 MR. MCGRAW: Yes. I mean, we're
13 looking at, you know, all segments of the loan
14 portfolio. Obviously, you know, it's no secret to
15 anyone. I mean, there is -- with everything
16 that's going on within the economy credit risk is
17 something that, you know, all the agencies are
18 looking at closely.
19 And we're looking at all the sectors
20 that are being impacted by the pandemic. And that
21 would include, you know, commercial real estate
22 would be included in that for sure. And the

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1 firms, you know, yes, I think if you look at firms
2 they have, you know, and part of this is, you
3 know, simplifying their structures, you know,
4 their risk profiles you have seen, you know,
5 improvement in that over the last several years.
6 MR. PETERSON: And so, do you follow
7 and track the non-banking organizations and the
8 potential impact they would have on banks that had
9 actually picked up that risk?
10 MR. MCGRAW: We do. We look at, you
11 know, exposure at our firms through non-bank
12 financial institutions both direct and indirect.
13 We look at that on a regular basis. You know,
14 we've done a lot of work around, you know,
15 leverage lending and looking at that, you know,
16 exposure on that front from the non-bank financial
17 institution side and how that could impact the
18 financial institutions.
19 MR. BODSON: This is Michael Bodson.
20 If I can jump in just on two comments. One in
21 terms of Doug's point about lower risk profiles.
22 As an example, we did a liquidation exercise three

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1 years ago where we actually simulated the default
2 sequentially of the five largest member firms
3 which one can imagine who they are.
4 What was fascinating to see was that
5 the size of the portfolio of those five firms
6 equaled what we had to liquidate with Lehman alone
7 back in 2008. But at the same time our margin
8 levels were twice what they were back in 2008 for
9 Lehman alone. So, you saw both a decrease of
10 money where we're dealing with most of assets
11 obviously. But you saw both a decrease in the
12 risk presented to us as well as the massive
13 increase in the level of protection that we had.
14 To your point also, Doug, in terms of
15 non-bank exposure that's something we are also
16 looking at and we have a Market Structure
17 Subcommittee. And obviously, you see the rises in
18 the firms. I refer to Citadel, James Street.
19 You're seeing, you know, people like market access
20 and the other ATS entities that are increasingly
21 becoming critical parts of the market and that's
22 something obviously we have to shift and

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1 understand better how that's going to impact, the
2 ripple impact through the financial system and
3 whether that's the new source of exposure for us
4 that historically has not been our focus.
5 MR. DELFIN: Thank you.
6 MR. HERRING: Could, this is Dick
7 Herring. Could I refer back to Page 11 and the
8 liquidity chart?
9 MR. DELFIN: Yes.
10 MR. HERRING: Thank you. As you
11 pointed out, this is a very complicated picture.
12 There are lots of things going on. We have
13 regulated liquidity for the first time. Overtly,
14 there have been the triggers instituted. Firms
15 have become, I think, a lot more risk averse on
16 their own. And as Peter pointed out our most
17 recent encounter has a very ambiguous outcome with
18 regard to just how resilient the system actually
19 was under huge stress.
20 I'm curious about a point that I think
21 Ben alluded to earlier about how the required
22 liquidity ratios and the resolution triggers may

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1 interact. Is there any reason to believe that
2 firms are holding more liquidity than they
3 otherwise would because of the resolution
4 triggers? Do we know if, which was binding when
5 they made decisions? There seems to be a pretty
6 widespread huge reluctance among firms to go below
7 the 100 percent ratio.
8 And I think it's been somewhat unclear
9 about whether that's a buffer or something that is
10 an absolute minimum. And so, I'm curious about
11 your interpretation of exactly what are the
12 factors that are leading to these increased levels
13 of high quality liquid assets which on the whole
14 is an encouraging thing. But I think it's
15 important to understand why they are where they
16 are. Thank you.
17 MR. DELFIN: Sure. So, on the
18 resolution side, you know, we have looked at, you
19 know, whether there is any, you know, binding
20 constraint associated with, you know, the various
21 resolution provisions. You know, that's been the
22 subject of a lot of discussion. Obviously, our

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1 goal here is just making sure that firms have
2 sufficient liquidity in order to execute their
3 strategy but not to set some floor.
4 That being said, you know, institutions
5 have said and this is where Quarles talked about
6 whether regulators were sort of, I think they used
7 the word putting a thumb on the scale and giving
8 the impression that people couldn't use this
9 liquidity. You know, we certainly have signaled
10 that firms should be using the liquidity and, you
11 know, if there is anything that we have done that
12 has given that impression that, you know, we would
13 like to fix that, we haven't heard anything that
14 we've done on that score. But I can't get into
15 the head of, you know, a particular trait as to
16 whether or not they're holding it for a resolution
17 purpose. I think that's unlikely given the other
18 much more significant requirements on liquidity.
19 But I don't want to begrudge that
20 because, you know, whether the number in, you
21 know, one test is higher than the other can change
22 on any given day. And so, folks might say well

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1 that's a binding constraint because it certainly,
2 it is suddenly the higher number. That more gets
3 into how firms apply the test than our
4 requirements on the firms. So, I think that was
5 that point.
6 In terms of your second question which
7 is, you know, what's giving rise to that, to the
8 higher liquidity, you know, Jim knows more than I
9 do on that score certainly. You know, my sense is
10 that you have had a conditional regulatory
11 requirement such as the LCR and others. Some of
12 it is also, you know, firms, you know, wanting to
13 hold liquidity when they feel constrained. And
14 that might be another reason why, you know, policy
15 makers took steps to make sure that there was
16 additional liquidity in the system just because
17 people were holding more of it and moving more
18 into liquid assets like treasuries and dollars.
19 But, Jim, do you have more on that
20 score?
21 MR. HERRING: Could I just have a quick
22 follow up --

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1 MR. DELFIN: Yes, please.
2 MR. HERRING: -- on a point you made.
3 You said that you wanted to encourage firms to use
4 that liquidity. And it was unclear to me if that
5 meant even if it meant going below the liquidity
6 trigger.
7 MR. DELFIN: Yes. So, our liquidity
8 trigger isn't some hard and fast trigger. Like if
9 you meet x, you must do y. You know, the firms
10 develop a governance mechanism. It's their own.
11 We don't impose one on them. What are the indicia
12 that you need in order to make good decisions so
13 that you can be prepared for bankruptcy if you
14 need to get there?
15 So, what we want through these
16 escalation protocols is an conversation. If x
17 happens I'm going to talk about whether I need to
18 do y. So, we don't set some hard and fast if your
19 liquidity means x, you need to do y. So, that's
20 the key there.
21 The question about whether there's a
22 binding constraint and resolution liquidity goes

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1 between, there are two different types of
2 resolution liquidity. And I hate to get too weedy
3 here. But one is a measure of how much liquidity
4 you have in each of your material entities at any
5 given time.
6 MR. HERRING: Right.
7 MR. DELFIN: The lingo on that is
8 called RLAP. It's resolution liquidity adequacy
9 and positioning. When you think about how much
10 liquidity do you have in each material entity and
11 is it sufficient to handle, you know, a certain
12 period of stress? And so, that's a measure of --
13 I call it how much you've got. Okay, I've got x.
14 The resolution is not triggered by how much have
15 you got as much as by how much do you need.
16 This is the RLEN trigger, resolution
17 liquidity execution need. That number is
18 obviously, you know, going to be lower and you
19 know, that's an interesting trigger. But that's
20 not where, that's not the question that we're
21 talking about is the liquidity to execute your
22 resolution. We're talking about the how much do

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1 you currently have test.
2 MR. HERRING: Except the two interact.
3 The two interact.
4 MR. DELFIN: Well, they do. So, if you
5 reach a point where the RLAP goes down to the RLEN
6 right, if what you have is the point where you're
7 RLEN that's an interesting moment in time that we
8 need to think about. We're not at that point.
9 MR. HERRING: Yes. But RLEN could also
10 go up --
11 MR. DELFIN: It could, it could.
12 MR. HERRING: -- relative to RLAP
13 especially in a troubled situation where people
14 suddenly feel that they are unwilling to buy
15 things that were liquid before.
16 MR. DELFIN: Right. The very good news
17 is we're not, you know, we have not been near
18 those points.
19 MR. HERRING: Yes, no. I mean this was
20 the fortunate thing in that the --
21 MR. DELFIN: Yes, yes.
22 MR. HERRING: -- mainly to banks

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1 instead of away from.

2 MR. DELFIN: Right.

3 MR. HERRING: It won't always be that

4 way.

5 MR. DELFIN: Right.

6 MS. BAIR: If I could just add because

7 I think it's a really good line of questioning

8 and, you know, the inherent weakness of using

9 bankruptcy, say they don't have a way to fund

10 themselves under Title 2 or the FDIC has the

11 ability to provide liquidity.

12 So, you've got these huge liquidity

13 requirements that are at the ready if you go into

14 a bankruptcy process. But in times of stress, you

15 know, a bank -- that's a different reason than the

16 liquidity rules from a supervisory standpoint, you

17 know, you're not liquid and can't use your

18 liquidity. And in times of stress we want banks

19 to use liquidity. We want those credit lines

20 open. We want that money going out. We want

21 market interventions to stabilize.

22 So, you know, but if they're using

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1 their liquidity in a stress situation they may be
2 weakening their ability to sell funds in a
3 bankruptcy. So, I think it's a very difficult
4 challenge you have. And I agree with the other
5 commentators that I think the regulator, on the
6 supervisory side there should be better clarity
7 about when you can and cannot use your liquidity.
8 I'm glad to see the Fed is finally going to be
9 finalizing the next stable funding ratio because
10 my view is that always should have been more the
11 primary focus from a stability standpoint is
12 duration mismatches not so much just holding
13 massive amounts of so called liquid assets without
14 the clarity about when you can use them because,
15 you know, why do we want banks to be liquid?
16 We want them to be liquid so that they
17 can, in a downturn they can provide that liquidity
18 into the market. So, the Fed has been doing a lot
19 of it now and good for them. But I also agree
20 with Peter that we shouldn't be too comfortable
21 that the banks have these, you know, huge balance
22 sheets with all this liquidity they like to brag

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1 about because, you know, I'm not sure if the Fed
2 hadn't intervened, I mean they were able to up the
3 credit lines because the Fed intervened in the
4 corporate debt market.
5 So, the corporation could draw down a
6 credit line and then it could go and issue debt
7 and pay it back. So, you know, it all worked out.
8 But none of that would have happened, I think
9 without the Fed's massive interventions. So, and
10 another really important question is do you plan
11 your resolution planning around the assumption of
12 massive Fed interventions? I kind of think you
13 don't. But, you know, it's just another key
14 challenge that you have is really how prepared
15 will you be if you don't have kind of the
16 extraordinary insertion of liquidity that the Fed
17 provided during this pandemic?
18 MR. DELFIN: Mr. Reed.
19 MR. REED: This is John Reed again.
20 And this is an off topic thought. But does it
21 make sense that we have such large markets
22 depending on overnight funding? You know, I'm so

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1 old that I remember when you were very careful
2 about spreading your funding requirements out so
3 that you weren't just depending on overnight. And
4 it seems to me the Fed had to step here in because
5 we have colossal sums of money that basically
6 require day-to-day funding. And that is
7 inherently unstable.
8 MR. DELFIN: That's a great point, you
9 know, a great observation. I think a lot of work
10 has been done over the years about how regulators
11 should treat short-term wholesale funding. You
12 know, certainly on the capital side or in the, you
13 know, resolution capital side in our TLAC rule you
14 know, we make sure that there is sort of long-term
15 debt available that is non-runnable debt to make
16 sure that there is sufficient loss absorbing
17 capacity to recapitalize the material entities.
18 To avoid the run on the capital side,
19 if you will. So, you know, certainly there are
20 challenges associated with reliance on short-term
21 funding and we see those periodically. But those
22 at the, you know, the Fed are probably better

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1 positioned to talk about some of those dynamics.
2 I wouldn't want to get over my skis more than I
3 am.
4 MS. O'CONNOR: Ricardo, just to weigh
5 in on that a little bit, I think at least at the
6 G-SIB level given the liquidity requirements
7 around LCR as well as TLAC as well as the short-
8 term wholesale funding dynamics, there is no
9 longer -- my understanding is, there is no longer
10 because there can't be a reliance on overnight
11 funding in that sector. Now, I think in the most
12 recent volatility in the markets we've observed
13 there are other market participants that fall
14 outside of that perimeter where that can't
15 necessarily be said.
16 And I guess that's sort of the question
17 that I have now coming from that which is you talk
18 about the resiliency and safety and soundness of
19 the banking institutions. That said, much of the
20 planning around liquidity or even resolution is
21 the ability to liquidate certain types of assets,
22 in particular, high quality liquid assets. And

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1 therein I think to what extent is, you know, the
2 FDIC engaging with the Fed and others on market
3 structure participants, changes in behavior and
4 changes in available liquidity because well, you
5 know, I take Peter's point on certain asset
6 classes and Sheila's point on certain asset
7 classes.
8 There should be and there can and
9 should be an expectation of liquidity in the U.S.
10 Treasury market. And that market is functioning
11 differently than expected. And I think it was
12 really positive and an appropriate move for the
13 Fed to sort of ensure that, you know, repo and
14 Treasury were functioning as robustly as possible.
15 But how do we ensure that we are paying as much
16 attention to the liquidity of the U.S. markets as
17 we are to the safety and soundness to our banking
18 institutions because it is that collective that
19 gives us financial stability?
20 MR. DELFIN: It's a great question.
21 You know, in terms of our relationship with the
22 Fed, you know, the Fed is the -- they really have

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1 the best vision into the relationship and the
2 liquidity in that market, you know, through their
3 open market operations, et cetera. But, you know,
4 we participate in liquidity examinations. You
5 know, of the largest firms we have a liquidity
6 team that has, you know, some vision into, you
7 know, the way the firm connects and as Jim pointed
8 out, how the firm connects with non-banks. But in
9 terms of the broader liquidity in that market, I
10 think that's more of a Federal Reserve issue than
11 an, you know, FDIC systemic resolution issue. But
12 I don't know, Jim, if you have anything to add to
13 that point.
14 MR. MCGRAW: No, Rick. Just that, you
15 know, we are connected as you say on the
16 examination supervisory side with liquidity and
17 capital both and nothing else beyond that.
18 MR. DELFIN: It's a great question. I
19 just, I can only do damage by wading into it.
20 MR. MCGRAW: Me too.
21 MR. DELFIN: So, unless there are any
22 questions we're 15 minutes behind schedule which

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1 isn't terrible. But I just wanted to pause to see
2 if there are any other questions before we take a
3 little break. If not, you know, we want to thank
4 Jim McGraw and everyone for their questions on
5 this segment. We're going to take a break until
6 quarter till.
7 So, we'll take a 15 minute break and
8 then we'll come back and we'll do updates on our
9 work using our Title 2 Orderly Liquidation
10 Authority which as, you know, Chairman Bair and
11 others pointed out that is an authority where we
12 have different tools than in bankruptcy including
13 the potential access to liquidity which is a
14 different dynamic than the world we just talked
15 about. So, thank you all. We'll see you again in
16 15 minutes.
17 (Whereupon, the above-entitled matter
18 went off the record at 10:32 a.m. and resumed at
19 10:45 a.m.)
20 MR. DELFIN: Hi, everyone. Welcome
21 back. So, we're right about quarter till so we
22 thought we would get started.

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1 You know, after our first session we
2 now want to move on to a discussion on our work
3 under the Orderly Liquidation Authority, the
4 backup regime for circumstances when the failure
5 of a large financial institution could threaten
6 U.S. financial stability.
7 And this tool is obviously built on
8 longstanding FDIC authority and under the FDI Act.
9 But obviously, to be used in new and novel ways,
10 particularly using the single point of entry
11 strategy, as I talked about earlier.
12 So, with that I'm going to turn it over
13 to Ryan Tetrick who is our Deputy Director for
14 Resolution Readiness. Ryan, are you there?
15 MR. TETRICK: Great. Thanks, Rick.
16 I'm here. And thanks to the Committee for your
17 time.
18 There is a fair amount to get through
19 in this segment so I'm going to jump right in on
20 Slide 18. I'll pause a few times throughout. But
21 please feel free to jump in and ask questions on
22 the page or off the page.

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1 This is just a quick overview of what
2 we'll cover. You know, so first a recap of how
3 far we've come on establishing single point of
4 entry as a strategic framework for G-SIB
5 resolution.
6 And then would like to spend most of
7 the segment sharing some of the work that we've
8 been doing to operationalize that framework. As
9 we go through I'll touch on three simulations that
10 we've conducted all this year, all during this
11 COVID crisis and work from home circumstances.
12 These are pre-planned simulations not
13 responsive to COVID. But we've carried them out
14 in this situation.
15 We'll correspond to the three topics
16 here on liquidity and funding and coordinating
17 into resolution and then, you know, how do we
18 stand up a bridge financial company in the context
19 of a Title 2 resolution.
20 So, on Slide 19, you know, if you think
21 back to, you know, where we started when the Title
22 2 authority was put in place we quickly recognized

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1 that the single point of entry approach was the
2 best strategy available to us.
3 Given the preexisting organization of
4 these firms, the high degree of financial and
5 operational interconnectedness among their major
6 operating subsidiaries and the fact that they
7 already, you know, were organized under non-
8 operating holding companies it gave us, you know,
9 a good strategic framework to start with and build
10 on.
11 Since that time, I think, you know,
12 this Committee may be well aware there has been an
13 industry wide, global effort to make G-SIB
14 resolution under single point of entry a credible
15 and feasible and to create optionality within that
16 framework so that we can respond to different
17 situations.
18 You know, a key part of building that
19 optionality for us, you know, has been the first
20 part of, the first segment of this session using
21 the planning that firms are doing under
22 bankruptcy.

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1 You know, importantly they provide us
2 -- and you can see this in the public plans, a
3 range of (audio interference) -- selling, winding
4 down.
5 MR. STERN: I think he's disconnected.
6 MR. DELFIN: Okay. It looks like we
7 lost him. Perfect, good to have you back. We
8 lost you for a second, Ryan.
9 MR. TETRICK: Okay, am I here? Did I
10 go on for long or did you miss much?
11 MR. DELFIN: No, just maybe three and
12 half seconds.
13 MR. TETRICK: Okay. So, you know, I'm
14 going to touch on, you know, this has also been
15 something that's been, you know, the SPOE approach
16 is a common approach globally now.
17 All the major G-SIB post jurisdictions
18 and home jurisdictions are operationalizing, you
19 know, a similar approach, slight differences. But
20 it helps that, you know, notwithstanding being in
21 different jurisdictions we're generally speaking
22 the same language trying to solve the same

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1 problems with different tools.
2 It makes it much easier to communicate
3 what our plans are and then to develop
4 coordination around those plans.
5 MR. HERRING: Excuse me, Ryan. May I
6 pose a question here? The progress you've made
7 has been amazing over time.
8 But in the beginning we used to talk
9 about two different strategies, the SPOE and
10 multiple points of entry. And as I understand it
11 there are still several countries that claim that
12 multiple points of entry would be their preferred
13 model.
14 Are you saying that there has been
15 convergence and that even the multiple points of
16 entry countries are recognizing the importance of
17 TLAC? I'm not sure to what extent the convergence
18 has happened.
19 Has it been an absolute triumph of
20 SPOE?
21 MR. TETRICK: Yes. So, there is a high
22 degree of convergence. You're right that there

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1 are, certain countries or at least certain G-SIBs
2 for which the expected strategy is multiple point
3 of entry.
4 None of the U.S. G-SIBs but in some
5 other jurisdictions. It's really a function of,
6 you know, from those jurisdictions view it as a
7 function of the way those firms are organized that
8 they're more subsidiarized and so they lend
9 themselves more to a multiple point of entry
10 approach.
11 There's not as much interconnection
12 between the material entities in different
13 jurisdictions for some of those firms. There's
14 still, you know, a high degree of global
15 coordination that would be needed.
16 And there's still importantly loss
17 absorbing capacity that's needed. There might be,
18 in fact in many cases it's higher because you've
19 got to resolve the individual subsidiaries around
20 the world and, you know, they're all in separate
21 regimes and so they need to be resourced
22 appropriately to support that.

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1 So, it's not a universal approach. I
2 think rightly so. It's right that we're tailoring
3 strategies to the nature of the institutions.
4 But for most G-SIBs, you know, we're
5 working up towards a single point of entry
6 approach around the world and certainly for all
7 the U.S. G-SIBs.
8 And, you know, you touched on one of
9 the policy developments that really supports this
10 strategy. But there's been a whole, you know,
11 framework that's been put in place in addition to
12 just the core resolution regimes.
13 You know, in the U.S. we were very
14 fortunate to be starting from a point where we
15 already had non-operating holding companies with
16 large stocks of unsecured debt that we could use
17 to bail in.
18 But importantly the clean holding
19 company and TLAC requirements that the Federal
20 Reserve has promulgated lock in that structure and
21 simplify it further for the express purpose of
22 making single point of entry more achievable.

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1 And then, you know, the other
2 developments here I think the group will be
3 familiar with. You know, the ISDA resolution
4 state protocol, you know, extends our financial
5 contracts in Title 2 effectively to, you know,
6 foreign contracts and contracts around the globe.
7 And because all jurisdictions are
8 implementing that protocol it's also you change
9 the prevailing expectation on the part of
10 counterparties that when a firm goes into
11 resolution contracts don't terminate, they
12 continue. And that's an important change in
13 expectations.
14 And then the last point here, you know,
15 we talked a lot earlier today about industry
16 resolution planning. And I just a few moments ago
17 mentioned, you know, the optionality that gives
18 us.
19 And I think Rick said this. You know,
20 that's all true. But the plan, the paper is sort
21 of the least important part of that process not
22 just for the firm's own resolution planning but

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1 for also, you know, how we would leverage that
2 activity in connecting a resolution under our own
3 authority.
4 You know, the bigger achievements are
5 the structural changes, the rationalization of
6 legal entity structures, the redundancies that
7 have been built in around, you know, key services
8 or critical operations that make the firms
9 organize in a more resolvable way.
10 And then importantly, the capabilities
11 that have been developed that, you know, while
12 designed for bankruptcy we're forthright about our
13 expectation that we would leverage those in Title
14 2. We talked to the institutions about that.
15 I'll go into some more depth on how we
16 expect to leverage the financial modeling
17 capabilities that firms have developed for
18 resolution. But also, things like, you know, play
19 books for maintaining continuity of access to
20 financial market utilities, employee retention
21 plans, communications plans.
22 We analyze all of those capabilities

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1 that the firms have developed in advance and
2 consider how we would adapt them in a Title 2
3 scenario.
4 And then, you know, in the sort of
5 ongoing engagement on the supervisory side some of
6 which, you know, touches on resolution planning
7 we're keeping our eyes on, you know, how those
8 capabilities are developing, how they're working
9 in practice so we know, you know, where we would
10 go to pick up on them and leverage them in Title
11 2.
12 So, that's, you know, really if you
13 take all that together all the key pieces we think
14 are in place from a conceptual and policy
15 standpoint to support single point of entry.
16 I'll pause here briefly just before
17 going into, you know, the work that we're doing to
18 operationalize that framework to see if there are
19 any remarks or questions on the strategic
20 framework around SPOE as a whole.
21 Great, so, I'll move to Slide 20. So,
22 obviously, you know, it all sounds great on single

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1 point of entry. We've got a strong regime, a good
2 framework supporting it, lots of coordination.
3 But operationalizing that is a huge
4 challenge for the FDIC and I think we should be
5 forthright about that. You know, I want to use
6 this continuum here to sort of frame the rest of
7 the discussion.
8 You know, everybody in the resolution
9 planning space, the firms and the one, the other
10 jurisdictions that are planning for resolving G-
11 SIBs have a chart like this that depicts, you
12 know, the stages of resolution and, you know, they
13 plan around.
14 You know, one of the -- some of the
15 points I want to make here just that this, you
16 know, you can see there is no indication of
17 precise amounts of time on the x axis. You know,
18 we certainly talk about general time frames and
19 expectations for this continuum.
20 But we know that there is going to be
21 a high degree of variability around how a scenario
22 unfolds. You know, a firm is, you know, likely to

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1 move in and out of recovery.

2 There are case scenarios that, you

3 know, recovery is successful and there is an off

4 ramp from this time line. And, you know, and

5 worse scenarios that it continues down the path.

6 We also know that, you know, we can

7 predict how long we'll have at different stages.

8 But at some point for G-SIBs, you know, there will

9 be an abrupt shift in perception of the firm's

10 liability and, you know, achieved liquidity

11 outflows and we'll move through these stages with,

12 you know, frightening rapidity and we expect that,

13 you know, there will be a turn which we have to

14 move very quickly.

15 Because of that expectation, you know,

16 as depicted here in our view Title 2 planning

17 doesn't start where recovery ends or where, you

18 know, bankruptcy planning ends. You know, there

19 are multiple processes going on concurrently.

20 We want to have a high tolerance for

21 false positives and starting our internal planning

22 and starting our external coordination around

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1 resolution planning. And, you know, what will
2 ultimately drive whether, you know, in particular
3 which resolution regime is appropriate, you know,
4 I think we've touched on it throughout the day.
5 We expect that's going to come down to
6 liquidity, you know, the amount and rate of
7 liquidity outflows.
8 How does that compare to what the firms
9 expect that they will need to get through
10 bankruptcy and what, you know, the agency's views
11 are as to whether, you know, we can put a high
12 degree of confidence that there is sufficient
13 liquidity to carry out a firm's bankruptcy
14 strategy or whether, you know, it's clear that
15 it's a systemic environment and our backstop
16 authority is going to be --
17 MR. PETERSON: Ryan.
18 MR. TETRICK: Yes.
19 MR. PETERSON: This is Doug Peterson.
20 As you've talked about capabilities as banks have
21 become operationally more and more complex from a
22 technology point of view, how do you measure and

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1 manage the technology capability?

2 MR. TETRICK: So, it's a great

3 question. You know, I think one of the things

4 that, you know, we're focused on sort of the

5 particular capabilities around supporting

6 resolution function so the, you know, broad

7 additional complexity on, you know, perhaps

8 building out of technology and proprietary

9 systems.

10 And, you know, certain of those connect

11 directly to resolution functions. They all have,

12 you know, systems that support their modeling

13 capabilities, that support just, you know, general

14 mapping of functions to material entities, to

15 business lines.

16 They have, you know, just a range of,

17 you know, both back office and front office

18 capabilities all of which, you know, we're

19 cognizant of. It's part of what we review.

20 It's part of what we expect to continue

21 in a resolution and, you know, fortunately, you

22 know, we've got a holding company structure that

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1 allows that to continue since most of that
2 activity is done at the operating subsidiaries.
3 MR. PETERSON: Thank you.
4 MR. DELFIN: And, Ryan, can I jump in
5 real quick?
6 MR. TETRICK: Yes.
7 MR. DELFIN: Because it's such a good
8 question. You know, maybe it's putting it too
9 bluntly.
10 But I think technology has been kind of
11 a double edged sword in this space. You know, on
12 the positive side, as Ryan points out, you know,
13 we can and firms can harness technology to have
14 much better information about let's say liquidity
15 positioning or shared services.
16 They can harness that information to
17 make better decisions and more timely decisions,
18 you know, by their board. That's all great.
19 And we would expect an OLA to piggyback
20 on those tools so that we can make better
21 decisions and have better information. The down
22 side, you know, obviously the world is moving a

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1 lot faster.

2 So, we would expect, you know, this

3 chart that Ryan points out, you know, this can be

4 stretched or it can be pushed based on, you know,

5 the speed of outflows. And, you know, technology

6 is obviously speeding up the world.

7 And, you know, we have to be ready to,

8 you know, jump certain steps in our continuum

9 based on the speed with which, you know,

10 technology has allowed counterparties and others

11 to move.

12 So, that's to me kind of the tension

13 and tradeoffs. But we certainly need to make sure

14 that we're harnessing the technology so we keep up

15 with the speed because the speed is happening no

16 matter what.

17 So, if we don't have the capabilities

18 to get information fast we're going to be, you

19 know, at a disadvantage.

20 MR. TETRICK: Yes. And I'll say, you

21 know, I've focused my response on stabilization

22 upon entry if everything continues.

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1 You know, the problems I hope we can
2 get to are how do we exit and, you know, break up.
3 And technology becomes a key factor there because
4 you have to think about if you're, you know,
5 separating parts of an institution is it reliant
6 on some core technology that comes back, you know,
7 in the lead bank or in another entity and how does
8 that transition over time?
9 So, that's something that the firms
10 have thought about in their, you know, analysis on
11 optics of sale and break up it's something that we
12 need to sort of piggyback on that analysis.
13 But we have the luxury of time to work
14 through that if we got past that stabilization.
15 You know, just I'll move on to Slide 21. You can
16 keep this schematic in mind.
17 We'll touch on it as we go through
18 generally in these next three topics the points B,
19 C, and D on that chart around the timing of entry.
20 You know, first topic being liquidating and
21 funding.
22 So, you know, of course, you know, this

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1 is a key focus of our planning and we've touched
2 on it throughout the day. It's likely to be the
3 cause of failure and then upon entry addressing
4 those liquidity stresses will be, you know, a key
5 immediate goal of the FDIC, of the bridge to
6 demonstrate that we can instill some stability
7 right upon entry.
8 You know, first, you know, how do we
9 know how much we'll need? And this is a
10 particularly difficult question for, you know, any
11 G-SIB resolution scenario and a Title 2 resolution
12 scenario no different.
13 It will be sort of environment without
14 precedent that you've got a single point of entry
15 being deployed that, you know, frankly hasn't been
16 deployed for an institution before.
17 We're, one thing we've increasingly
18 turned our focus to in recent years is how can we
19 leverage the resolution specific liquidity
20 modeling that the firms are doing in our own Title
21 2 planning.
22 So, you know, it's been mentioned

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1 throughout the day resolution liquidity and
2 execution need or RLEN which is, you know, it's a
3 capability, you know, unique. You think about all
4 the, it's built on the internal liquidity stress
5 testing that the firms do.
6 But importantly it goes past the point
7 of failure. You know, all stress testing is to
8 sort of demonstrate capacity to handle the stress.
9 This is built to show what happens
10 after a failure and what those liquidity needs
11 are.
12 And it's intended to be sort of a real
13 time modeling capability that when a firm goes
14 down its runway is updated, you know, daily,
15 regularly based on the scenario that's being
16 experienced, the actual outflows, the actual
17 stresses and then sort of augmented with firm
18 reporting and, you know, what's actually happening
19 on the ground with particular counterparties.
20 You know, one way to use that is just
21 as a general proxy. You know, this is the general
22 proportions of liquidity that's needed for a

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1 resolution scenario.
2 But when we think about we know that
3 there are certain things that are just going to
4 change the situation if we're in Title 2.
5 So, the mere presence of the Orderly
6 Liquidation Fund as a liquidity backstop, you
7 know, will change the credit worthiness of the
8 group which, you know, will result in potentially,
9 you know, lower levels of collateral that's needed
10 on the part of counterparties or financial market
11 utilities.
12 And then we've also got different
13 tools, right. We have the fund itself and we can
14 also issue guarantees that are backed by the
15 Orderly Liquidation Fund.
16 And so, we've thought about how do we
17 adapt the modeling that's being done by these
18 institutions to make projections for Title 2? We
19 know that we're not going to get the number right.
20 We know that, you know, and I think the
21 firms know that there is not precision here on
22 these modeling capabilities. But it will give us

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1 an understanding of what the key drivers of
2 liquidity needs are and, you know, importantly
3 breaks down that projection not just at an
4 aggregate top of house number.
5 But, you know, what are the particular
6 needs across material entities? What are the
7 timing for those needs? You know, what
8 counterparties or stresses or outflows are going
9 to drive those?
10 And we've been thinking about how we
11 make, you know, these estimates as we go through
12 it, you know, the runway to an actual resolution
13 not just in isolation. You know, we've been
14 working with the institutions themselves.
15 We're forthright about our expectation
16 that we've leveraged their bankruptcy capabilities
17 and, you know, talking to them about, you know,
18 how adaptable are your models for these types of
19 scenarios? Can we, you know, apply our own in
20 house overlays to them?
21 How can we work through your systems to
22 modify your projections for a different type of

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1 scenario? So, it's one tool to assist us how much
2 liquidity we might need in resolution.
3 And then, you know, another part of
4 this is, you know, actually providing the funding
5 through the Orderly Liquidation Fund. And, you
6 know, we also undertake work, you know, to
7 validate and test the operational steps needed to
8 access the Orderly Liquidation Fund to move funds
9 from Treasury through, you know, receivership down
10 to a bridge financial company.
11 You know, one way that we've done that
12 earlier this year we conducted an interagency
13 simulation with the Treasury Department and its
14 Bureau of Fiscal Service, the New York Federal
15 Reserve to practice these operational steps.
16 We had, you know, roughly 60
17 individuals involved. The actual practitioners of
18 this practice go through and complete all the
19 operational steps that would be needed, activate
20 the systems.
21 As part of this work we, you know,
22 within the FDIC completed the statutory required

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1 legal documents that would be needed to gain
2 access to the fund, the orderly liquidation plan
3 and the mandatory repayment plan and then shared
4 those with Treasury.
5 That was actually the first step in the
6 simulation. And we made the request for funding
7 through those documents and kicked off all the
8 subsequent action among the practitioners to do
9 everything up to the point of actually sending
10 funds across the wires.
11 You know, we do this because, you know,
12 we know that we want the, any use of the Orderly
13 Liquidation Fund to be temporary and limited. But
14 we know that undertaking a Title 2 resolution we
15 absolutely have to be prepared to use it.
16 And, you know, we conducted this
17 simulation in a manner that, you know, had some
18 bold assumptions about, you know, how much we
19 would need and, you know, sort of testing the time
20 lines.
21 It helped us refine the process and it,
22 you know, I think importantly helped build the

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1 muscle memory and relationships among, you know,
2 the parties that are involved in this.
3 MR. KOHN: Ryan, it's Don Kohn. So, I
4 would think that after recapitalization that the
5 depository institution would have access to the
6 Fed's discount window and the Orderly Liquidation
7 Fund could then be focused on the non-DI pieces of
8 the holding company since there was already a 1330
9 emergency declared.
10 But assuming that's not going to
11 happen, is that a bad assumption Fed for DI,
12 Orderly Liquidation for everything else?
13 MR. TETRICK: It's a really astute
14 point. And, you know, I don't want to speak for
15 the Federal Reserve or any other central bank for
16 that matter.
17 You could think about other central
18 banks around the world where, you know, you have
19 an institution that's, you know, been
20 recapitalized. You know, it's meeting all of the
21 other terms of access importantly to its, you
22 know, ordinary funding facilities that, you know,

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1 potentially there could be access to those
2 facilities.
3 We expect like, you know, upon entering
4 the resolution the Orderly Liquidation Fund is
5 there for resolution and to meet those immediate
6 acute liquidity needs. But sort of an important
7 principle around resolution planning is, you know,
8 a Title 2 bridge financial company is a, you know,
9 somewhat exotic entity.
10 We want to make it as unexotic as
11 possible. And if it has access to all of the
12 ordinary facilities it otherwise has that's, even
13 if they're not needed it's reassuring that it
14 looks and operates like any other institution.
15 So, maybe moving to Slide 22 on and
16 moving down the time line and coordinating
17 entering the resolution. You know, real quick,
18 you know, I think it's remarkable the degree to
19 which the agencies are connected on resolution
20 planning just on a regular basis.
21 You know, we're sort of joined at the
22 hip certainly weekly if not daily with the Federal

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1 Reserve on, you know, not just Title 1 planning
2 but coordinating with board authorities through
3 CMGs and FSB work stream.
4 So, there's strong relationships
5 around, not just on the supervisory side but, you
6 know, we're talking frequently about resolution
7 planning. And then in addition, you know, there
8 is the funding process that we're connected on and
9 also the appointment process.
10 You know, we do regular updates around
11 the statutory appointment process for Title 2, the
12 so called three T's process that include, you
13 know, all the key turning agencies not just us and
14 the Fed but Treasury and the SEC as well.
15 It's on the domestic side that's
16 ongoing with lots of strong relationships there.
17 On the cross border front, I think many will be
18 familiar here there is a variety of venues that we
19 participate in.
20 There's annual crisis management group
21 meetings for each of the G-SIBs. You know, a
22 range of FSB work groups and work streams focused

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1 on resolution and, you know, lots of bilateral
2 engagement.
3 I want to spotlight here one, you know,
4 particularly powerful and unique program that
5 we've maintained with the UK and the European
6 Banking Union on G-SIB resolution.
7 You know, the centerpiece of this
8 program has been a series of principle level
9 exercises in which the principles of all the major
10 financial regulatory authorities in these three
11 jurisdictions, the central banks, the finance
12 ministries, the resolution authorities come
13 together in person and, you know, hold an exercise
14 roughly every two years and discuss, you know,
15 core issues and challenges around coordinating a
16 cross border resolution of a G-SIB.
17 Things like how are we going to
18 communicate the strategy that will be deployed and
19 the timing that it will be deployed?
20 How are we going to coordinate the
21 recapitalization of subsidiaries through
22 converting internal TLAC, the pre-placed debt at

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1 operating subsidiaries abroad or down streaming a
2 more fungible pool of contributable resources or
3 unallocated resources?
4 How we coordinate, you know, external
5 public communications? What messaging is needed,
6 you know, from host authorities to support the
7 home authority resolution?
8 It's been a particularly productive
9 arrangement in large part because of the
10 reciprocal nature of the relationships across
11 these three jurisdictions. You know, if you think
12 about it we're all major home authorities to
13 multiple G-SIBs.
14 But importantly we're all also material
15 host authorities to each other's G-SIBs. And so,
16 when we're confronting principles with, you know,
17 these challenges that they might have to face or
18 the decisions that we want them to practice in
19 advance everybody kind of has to think both with
20 their home and host hat on and what's an
21 arrangement, what's an action that we could be
22 satisfied with if the shoe was on the other foot,

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1 so to speak?

2 And it's really been productive in

3 large part because of that. And then, you know,

4 in between the principle level exercises, you

5 know, we had one last spring, April 2019. We're

6 planning for another one in 2020.

7 There is ongoing staff level work

8 either on distributing work streams of on our own

9 exercises.

10 I'll highlight that later this fall

11 over the period of several weeks we'll be

12 conducting a cross border simulation of the

13 resolution of a hypothetical G-SIB placed in one

14 of these three jurisdictions with senior staff

15 from all of these authorities participating.

16 We'll be presented with a hypothetical

17 failure scenario that unfolds over the course of

18 these weeks and then be asked to react. I don't

19 actually know what scenario is coming my way to

20 react to.

21 We've got a team, a cross border team

22 designing that. And we're going to use this to

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1 sort of practice the, you know, protocols that
2 we've established for cross border coordination.
3 You know, how do we initiate
4 engagement? What sorts of information needs to be
5 exchanged to support decision making cross border?
6 How are we going to coordinate
7 recapitalization of posted entities? And then,
8 you know, how do we, you know, communicate and
9 facilitate a stable opening, you know, after
10 resolution weekend is completed?
11 So, excited for that and I think it
12 demonstrates, you know, a high degree of
13 involvement at senior levels across these
14 jurisdictions to really get down to the practical
15 level about how do we conduct a resolution of a G-
16 SIB.
17 So, we'll turn to governance of a
18 bridge financial company unless there are any
19 questions there.
20 MS. HUGHES: Ryan, I think Mr. -- thank
21 you, Dr. Bernanke, did you have a question?
22 MR. BERNANKE: Yes, sorry. Could you

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1 review the criteria for choosing between Title 1
2 and Title 2? And isn't that going to be affected
3 by foreign decisions if you have to coordinate
4 with the foreign regulator?
5 MR. TETRICK: So, there is certainly
6 nothing in the statute that suggests, you know,
7 they don't have a statutory lever to pull or we're
8 not required to in making a decision about
9 deploying Title 2 or bankruptcy get foreign
10 regulator approval or sign off.
11 But there is maybe a practical question
12 of how will the host authorities react and will
13 there, does the reaction function of foreign
14 authorities make bankruptcy more or less viable?
15 I think that's just a reality.
16 You know, the criteria for whether or
17 not Title 2 is deployed, you know, there are eight
18 of them. But the key criteria are, of course, is
19 bankruptcy viable or would it create systemic
20 disruption to the U.S.?
21 You know, what's the cause of failure?
22 And what actions would be taken under Title 2 to

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1 address the potential systemic effects of a
2 resolution under bankruptcy?
3 So, there is a direct tie in to
4 deploying Title 2 and whether bankruptcy would be
5 viable. You know, we expect that the approximate
6 cause of failure is, you know, there are several.
7 But you can expect that would be, you
8 know, the anticipated failure on the basis of an
9 inability to meet payments as they come due, just
10 based on the rate of liquidity outflows and the
11 remaining liquidity in the firm.
12 And that will, you know, inform whether
13 bankruptcy is viable or not, in our view. And,
14 you know, there is, you know, I think we are, you
15 know, they're connected with us in our Title 2
16 plan.
17 So, they generally have a higher degree
18 of comfort because they're working with a single
19 party that they're familiar with in the home
20 authorities. But we also do, you know, connect
21 our institutions with host authorities on Title 1
22 planning.

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1 So, all of the host authorities receive
2 the portions of the Title 1 plans that relate to
3 the operations in their jurisdiction.
4 And then critically at crisis
5 management group meetings, you know, all the
6 material hosts attend, the firm attends and there
7 is, you know, we spend half the day discussing how
8 bankruptcy would work, what the host authorities
9 would need to see from the firms and from the
10 authorities in order to support a bankruptcy
11 strategy.
12 I think they all understand that there
13 is, you know, certain circumstances in which, you
14 know, bankruptcy would be viable and others in
15 which, you know, they're going to rely on FDIC and
16 other U.S. authorities to step in with our
17 backstop authority.
18 But they are familiar with the
19 bankruptcy planning process and do have an
20 opportunity to engage with it.
21 MR. BERNANKE: Thank you.
22 MS. O'CONNOR: Ryan, just a quick

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1 question. You know, given such importance related
2 to planning and familiarity that you were just
3 talking through just curious that with respect to
4 bankruptcy are there specific, you know,
5 bankruptcy judges or lawyers that are engaged in
6 part of these simulations so that they too could
7 be familiar with plans and courses of action,
8 especially in the context of, I guess, European
9 counterparts sort of leaning toward, you know,
10 Title 2 given their familiarity with that?
11 MR. TETRICK: Yes. It's a great
12 question and, you know, a well-placed question and
13 I'll allow others to chime in, in a moment.
14 But just acknowledge that to
15 facilitate, you know, making bankruptcy achievable
16 we have directly engaged with a number of the
17 bankruptcy circuits that might be in a position of
18 taking on such a case to educate them about the
19 terms bankruptcy plans the industry has
20 participated in that.
21 You know, we've -- to the point of, you
22 know, developing, you know, thinking about what

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1 packets of information, you know, the court would
2 need upon a bankruptcy filing and we have hosted
3 a number of workshops with bankruptcy judges to
4 talk through, you know, with industry, with the
5 authorities there to talk through, you know, what
6 a bankruptcy filing for entities might look like.
7 Those sort of bankruptcy single point
8 of entry strategy and how they might need to make
9 decisions around that.
10 MS. O'CONNOR: Thank you.
11 MR. KOHN: We've talked about this
12 before. But I think a risk here is that they're
13 not from, the touring authorities are not familiar
14 with bankruptcy although you've tried and our
15 bankruptcy judges, some of which are on this panel
16 have tried and the ring-fencing they would start
17 grabbing assets.
18 Is that because they would be dealing
19 with somebody they weren't comfortable dealing
20 with make sure. Is that the risk? Is that the
21 problem?
22 MR. TETRICK: So, that's a risk. I

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1 think it would be great, you know, I'm glad you
2 pointed out we do have some of those judges on
3 this panel and it would be interesting to hear
4 their perspective on this.
5 I think, you know, there is -- we
6 always talk about ring-fencing risk and, you know,
7 that's a term that encompasses a, you know, broad
8 manner of sins, you know, from actually seizing
9 and separately winding down operations to
10 preventing the flow of, you know, more benign ring
11 fencing where you're just preventing the flow of
12 capital and liquidity across borders which could
13 be a hindrance but wouldn't necessarily destroy a
14 single point of entry strategy.
15 In fact, you know, we all expect that
16 some of that is going to occur whether it's in
17 bankruptcy or Title 2.
18 MS. CHAPMAN: Hey, Ryan. It's Judge
19 Chapman.
20 MR. TETRICK: Yes, great.
21 MS. CHAPMAN: Hi, how are you?
22 MR. TETRICK: Good, how are you?

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1 MS. CHAPMAN: I am on the phone with my
2 colleague, Bob Drain from the Southern District of
3 New York.
4 And just to elaborate on what you
5 stated, we have had over the last, I would say
6 four to five years comprehensive efforts to
7 educate judges in some of the most sophisticated
8 and key commercial jurisdictions, particularly the
9 Southern District of New York where of course the
10 Lehman case remains pending and other large
11 financial institution cases are filed all the time
12 increasingly more nowadays and also the judges in
13 the District of Delaware which is another target,
14 a magnet, if you will, for large sophisticated
15 Chapter 11 cases.
16 That was the location of the Washington
17 Mutual case some years ago. We've also extended
18 the outreach to bankruptcy judges across the
19 country and we are in the process, were in the
20 process before COVID commenced of creating written
21 materials, a handbook if you will so that any
22 judge who got one of these cases would be well

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1 versed in how to handle it.

2 We also felt that was important in the

3 event that if a financial institution were to fail

4 that wasn't a G-SIB but was perhaps a regional

5 bank that the work that we've done would help

6 inform the oversight of that.

7 I think both Judge Drain and I are firm

8 believers that bankruptcy can and would work to

9 handle these cases. There has been a lot of

10 learning in the past 11 years since Lehman and I

11 think a lot of that learning has been incorporated

12 into the SPOE planning.

13 With respect to the foreign regulators

14 we've also done outreach in that regard. There

15 was a conference a year ago August. Chairman

16 Gruenberg was there.

17 We participated with many regulators

18 from across the world to get them comfortable with

19 the concept of a U.S. bankruptcy. The ring-

20 fencing issue remains out there.

21 We're optimistic that we've done a lot,

22 frankly that FDIC has done a lot to potentially

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1 mitigate those concerns. I don't know if Judge
2 Drain has anything to add to that.
3 But I did want to chime in. Thank you.
4 MR. DRAIN: I agree with that.
5 Although, I do have some concern that foreign
6 courts might not have been brought in and educated
7 the way that the regulators have and that might be
8 a focus in the future to ensure that there isn't
9 some filing of a subsidiary in Germany.
10 MR. DELFIN: Judge Drain, it's a little
11 hard to hear you. I don't know if there is a way
12 to --
13 MR. DRAIN: If there isn't a filing --
14 MR. DELFIN: Perfect.
15 MR. DRAIN: -- of a foreign subsidiary
16 notwithstanding the single point of entry approach
17 in Germany say or the UK that there is some
18 outreach through their regulators to the foreign
19 courts to sort of educate them on the overall
20 process. I'm a little worried about that gap.
21 MR. TETRICK: Yes, thanks, Judge Drain
22 and Judge Chapman. Those are, that's really

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1 helpful and I think it's a good point about sort
2 of the, you know, know myriad of hosts that we
3 need to coordinate with.
4 That's true whether it's a Title 2
5 resolution or a bankruptcy. But there is
6 certainly more that can be done particularly for
7 the many sort of less material hosts that we
8 haven't had as much engagement with to educate
9 them on the process of what it would look like and
10 what it should mean and not mean upon entering the
11 resolution.
12 Moving on to just governance in a Title
13 2 resolution. You know, we would expect to stand
14 up a bridge financial company.
15 And not unlike in bankruptcy, you know,
16 we would hope to retain the vast majority of the
17 staff including, you know, many of the executives
18 and even highly compensated staff. We expect that
19 we're going to have to implement staff retention
20 plans.
21 But a key question is that leadership,
22 governance, who is going to lead the bridge bank?

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1 Who will constitute the board -- I'm sorry, bridge
2 financial company. Who will constitute the board
3 of that company? You know, what control
4 provisions will the FDIC put in place and how will
5 we exercise those controls?
6 So, we expect that, you know, the
7 legacy board will be replaced, you know, the CEO
8 and certain other C-suite executives would need to
9 be removed. We have, you know, some statutory
10 requirements to address and remove individuals who
11 are partly the cause for the failure. We just
12 need to put new leadership in place to create
13 credibility for this institution that's just
14 failed and we had to stand up and put on a
15 different path.
16 You know, because, you know, we can
17 foresee that need and it's a significant challenge
18 we've established a proactive program to identify
19 potential leadership candidates for our brokerage.
20 I know some members of this panel are familiar
21 with that program and, you know, it was recorded
22 in a 2019 Wall Street Journal article that we were

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1 building this program.
2 But basically it entails work that we
3 do with a leading executive search firm to seek
4 out candidates, meet with them in advance,
5 understand, you know, their fit, motivation, you
6 know, potential willingness to serve on the
7 leadership team of a bridge financial company if
8 we were to find ourselves in this situation and
9 has allowed us to build at least a pool of
10 candidates.
11 Working with, you know, a major
12 executive search firm has allowed us to, you know,
13 be in connection with the type of individuals who,
14 you know, they're working with regularly to place
15 in C-suite positions at financial institutions
16 with the particular lens of what would be needed
17 in this sort of scenario. And we're looking for
18 people with obviously, you know, relevant and
19 substantial operating experience, but also, you
20 know, crisis and restructuring experience and an
21 inclination towards government and public service.
22 You know, broadly speaking we've got a

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1 pool of scores of individuals that are, you know,
2 highly qualified for sort of different levels
3 whether it's board or executive positions at
4 different types of institutions that we're
5 engaging with regularly. You know, we don't know
6 -- it's pretty hard to say at the time who will be
7 available. You know, individuals tend to take on
8 new roles. So, it's important that we're
9 building, kind of build depth into that pool and
10 maintain some degree of occasional contact. And,
11 you know, whether or not we can actually draw
12 individuals from that pool it gives us a really
13 good starting point.
14 It gives us a pool of contacts to build
15 from. And we've learned a lot just from talking
16 about, you know, this sort of transformational
17 leadership with these candidates about what would
18 be useful in terms of bridge governance and the
19 relationship and sort of controls between the
20 people that we might place and the FDIC who is
21 overseeing it and running the process. It's one
22 tool that we have and, you know, we know that the

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1 people that we put in place, particularly the CEO
2 that we put in place to stabilize the bridge and
3 manage its exit from resolution will be, you know,
4 as important as any other decision that we make
5 around this process.
6 And then, you know, just touching here
7 on the third simulation that I mentioned we
8 conducted earlier this year. You know, the
9 controls that we put in place for this new
10 leadership will all be, you know, formally
11 established in the chartering documents for a
12 bridge financial company. So, we took, undertook
13 an exercise just to, you know, fill out all the
14 paperwork that we would need to stand up a bridge
15 financial company. You know, the charter, the
16 articles of association bylaws.
17 You know, the agreement between the
18 FDIC receivership and the bridge company that
19 would move assets and maybe some liabilities to
20 that bridge financial company, employment
21 documents, all the associated FDIC board cases.
22 You know, we filled all that out. We actually

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1 selected a particular G-SIB to animate the
2 completion of those documents, sort of force us to
3 make decisions about, you know, how that package
4 would be put together.
5 And, you know, just I think a key
6 outcome of that was not just the, you know, sort
7 of stock of template documents that we've tested
8 and been through but it, you know, forced us to
9 ask a lot of questions around bridge governance
10 and how that would be established as we went
11 through the process. And, you know, would be
12 interested, you know, moving on to Slide 24 for
13 perspective from the Committee here on --
14 CHAIRMAN MCWILLIAMS: Ryan, I'm going
15 to drop you for a second.
16 MR. TETRICK: Please.
17 CHAIRMAN MCWILLIAMS: Ryan, I'm going
18 to drop you for a second so we may have judges
19 here that may have to deal with those companies
20 that come to that position. And what we didn't
21 tell the rest of you is that we may pin you to
22 serve on the board. So, good luck.

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1 MR. TETRICK: Hopefully we can make it
2 sound like a suitably attractive position and you
3 can tell us --
4 CHAIRMAN MCWILLIAMS: It's going to be
5 great.
6 MR. TETRICK: Thanks for that.
7 MR. MAYOPOULOS: Ryan, this is Tim
8 Mayopoulos. Before you move on --
9 MR. TETRICK: Great, yes.
10 MR. MAYOPOULOS: -- I just wanted to
11 commend the FDIC for the executive search program
12 that you put in place. I've had the privilege of
13 being involved in a number of the meetings
14 associated with that and I think it's been
15 extremely well conducted and very impressive. I
16 think the partners you've picked to help you run
17 it have been excellent. And I'm just curious as
18 to how you're feeling about the breadth and depth
19 of the pool that you've been able to build and
20 whether you think it would likely be able to meet
21 your needs if you had to actually go through a
22 bridge bank resolution?

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1 MR. TETRICK: So, first of all there is
2 a pretty large pool that we've built out. And
3 we're meeting with candidates, you know,
4 constantly. So, you know, a couple of months and
5 not everybody is in a position to say, yes, sign
6 me up I'll be the CEO. As you're well aware some
7 are interested in that sort of operating position.
8 Others are, you know, expressing interest to serve
9 on a board or just serve in an advisory capacity.
10 And we know that the sort of disposition and
11 availability of the candidates in this pool is
12 going to change over time based on, you know,
13 their obligations and based on the situation, the
14 scenario.
15 So, we think it gives us a credible
16 starting point. We've sort of cut our pool a
17 number of different ways and though about, you
18 know, institutions of different sizes or different
19 types whether it's, you know, even banks or non-
20 banks and we can find credible candidates in that
21 pool for, you know, any type of institution that
22 we look at.

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1 We don't have people, you know, pre-
2 committed with an agreement saying that they'll
3 serve. But it gives us a great starting point and
4 we think that there is the potential we could meet
5 the leadership needs that we would have through
6 that pool. And it certainly gives us, I think
7 nearly uniformly everybody you engage with is --
8 wants to help in some way. And it certainly gives
9 us a starting point on, you know, additional
10 contacts or guidance to find candidates.
11 MR. MAYOPOULOS: Thank you very much.
12 MR. TETRICK: And appreciate your
13 comments and your support for the program and
14 certainly when you think about transformational
15 leadership you've seen a little bit of that.
16 Appreciate it. Yes --
17 MS. BAIR: This is Sheila, hi. Just a
18 quick question. If we could go back to the
19 earlier stages when you're setting up the bridge
20 bank. I mean, when we sought after Title 2 one
21 thought was, and you refer to a clean holding
22 company and I guess I want to figure out what you

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1 mean by that because I think one of the things we
2 wanted to do is have additional tools so we
3 weren't just going to be recapitalizing a, you
4 know, a mismanaged institution.
5 MR. DELFIN: Sheila, we lost you for a
6 second. I don't know if you could --
7 MS. BAIR: -- do a little bit of
8 restructuring and cleaning up.
9 MR. DELFIN: Hey, Sheila. We lost you
10 for about 30 seconds there. We lost you for about
11 30 seconds there.
12 MS. BAIR: Okay. How about now?
13 MR. DELFIN: Yes, I hear you perfectly
14 now. I think it was right around you were talking
15 about, you know, clean holding company and --
16 MS. BAIR: Clean holding company.
17 MR. DELFIN: Yes.
18 MS. BAIR: So, hopefully three is the
19 charm, so just quick question. Is your operating
20 assumption now you're just going to move
21 everything into the bridge or is there going to be
22 some effort to create a legacy bank and keep, you

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1 know, distressed assets, risky business
2 activities, shut those down or leave them in
3 receivership to have a truly clean financial
4 organization moving into the bridge or is the
5 assumption you're just going to move everything
6 in?
7 MR. TETRICK: Yes, that's a great
8 question. And I think it starts with just
9 touching on a clean holding company a little bit.
10 So, you know, the clean holding company
11 requirements that have been put in place really
12 require very simple non-operating holding
13 companies where the liabilities are nearly
14 entirely plain vanilla, long-term unsecured debt.
15 MS. BAIR: Right.
16 MR. TETRICK: There is some portion
17 that, you know, might be less clean around that.
18 But the vast majority is plain vanilla unsecured
19 debt. And that way our starting point is that all
20 of that is left behind in receivership and, you
21 know, those creditors need to file claims.
22 On the asset side, the assets are

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1 primarily, you know, investments in subsidiaries
2 so that assets are mostly the subsidiaries of the
3 holding company and then maybe, you know,
4 operating cash, maybe some securities that are
5 held at the holding company. So the real question
6 comes down to if we're leaving something, assets
7 behind is there a defunct subsidiary that the, you
8 know, the stock of that subsidiary we don't
9 transfer to the bridge financial company we want
10 to wind that down separately.
11 But carving out assets from a
12 particular subsidiary is a little bit harder to
13 do. That's more accounted for in the
14 capitalization of the entity and then maybe in the
15 bridge you set up, you know, you segregate that
16 and set up a wind down or, you know, dispose of
17 those assets.
18 MS. BAIR: Right. So, if you have a
19 severable sub where there is a lot of, you know,
20 we're saving that can stay behind or I guess you
21 could theoretically spin that into bankruptcy
22 right or not? You would have to --

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1 MR. TETRICK: Yes, you could. You
2 could spin it into bankruptcy.
3 MS. BAIR: Just cut it off right.
4 MR. TETRICK: Yes.
5 MS. BAIR: Well, I can understand
6 operationally that makes sense. But I just, you
7 know, maybe that just is the way it has to be.
8 But if you want to have a capacity to raise
9 private capital not just rely on the
10 recapitalization process your resolution planning
11 could actually have a truly clean company where,
12 you know, new investors are going to come in, you
13 know, and then ability to kind of deal with some
14 of those. Legacy assets seems to be might be an
15 impediment. But, you know, operationally you just
16 may have no other choice. But thank you for the
17 clarification. I think I understand now how you
18 would handle it.
19 MR. TETRICK: Yes, it's a fair point.
20 And, you know, the bridge is recapitalized by
21 leaving behind all those liabilities.
22 MS. BAIR: Right.

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1 MR. TETRICK: And it's going to take
2 some time to, you know, size the problem. Part of
3 the reason it's failing is because there is
4 uncertainty around the assets on a balance sheet
5 or its operations. And we expect to use the --
6 MS. BAIR: Please go ahead.
7 MR. TETRICK: -- expect to use that
8 bridge period to, you know, identify those
9 problems, separate them from, you know, the core
10 operations of the bridge. And, you know, maybe
11 those get moved into a wind down type entity or
12 divested or just accounted for in the
13 capitalization of the new bridge. I think you're
14 starting to go into how long.
15 MS. BAIR: Exactly. I was curious how
16 long you think these bridges are going to last or
17 maybe another question.
18 MR. TETRICK: A bridge, as you know
19 well of any duration is going to be an
20 uncomfortably long duration no matter how short it
21 is. But just to complete some of the processes
22 that we expect there might be ways of doing it

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1 quicker. But we generally expect that there is a
2 sort of floor of 270 days just to complete the
3 claims process, the reevaluation and then exit,
4 you know, potentially through issuing new
5 securities in a securities or claims exchange.
6 MS. BAIR: Right.
7 MR. TETRICK: It kind of depends on how
8 long we want to, how much we want to accomplish
9 during that bridge period or the circumstances in
10 the market. Is the market stabilized to a degree
11 that we want to push this new company back out or
12 is the strategy to wind it down further? It kind
13 of depends on the situation how much longer of the
14 270 days we need within the statutory limit of the
15 five years.
16 MS. BAIR: Right, okay. Thank you.
17 MR. TETRICK: You're welcome. So, on
18 Slide 24, just to kind of go over the construct
19 for bridge governance, you know, as the receiver
20 of the failed company we're accountable for, you
21 know, the successful resolution of the firm which
22 means we have to sufficient oversight and control

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1 of it to guide that process.

2 You know, the types of controls that

3 would be retained by the FDIC are those listed

4 here. You know, approval of amendments to the

5 articles and bylaws, appointment of officers and

6 directors, you know, any major divestitures, the

7 types of controls that are similar in many ways to

8 the controls that shareholders would have over any

9 other operating company.

10 At the same time the new bridge

11 leadership needs to have, you know, the confidence

12 of its customers and counterparties and its

13 personnel and just the ability to operate. And

14 so, to the maximum degree possible we want the day

15 to day operations of a bridge to be the

16 responsibility of bridge management, you know,

17 subject to these certain approvals and oversights

18 by the FDIC.

19 I guess, you know, we're depicting this

20 here as sort of a clean break between the things

21 that the FDIC controls and the activity that the

22 bridge, board and CEO will be responsible for.

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1 But some of the things that we've learned from,
2 you know, investigating case studies of similar
3 public sector interventions whether it's in the
4 U.S. with AIG or the GSEs and FFA or, you know, in
5 other jurisdictions, you know, be it ABN AMRO Bank
6 or others and through talking with leadership
7 candidates in this pool is that, yes, it's
8 essential to establish a clear understanding of
9 the roles of the regulators and the roles of new
10 management as operators up front.
11 But there will also be a myriad of
12 corporate decisions that don't fall easily into
13 the construct that we sent up, you know, matters
14 that require interpretation and guidance which
15 means that it will be important for us to have,
16 you know, a small on site presence with clear
17 authority to provide guidance on behalf of the
18 FDIC to coordinate with the FDIC Chairman and to
19 support timely decision making especially around
20 that period immediately upon entering the
21 resolution.
22 MR. COHN: So --

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1 MR. TETRICK: Yes, yes.
2 MR. COHN: It's Gary Cohn. So, I look
3 at this and it makes sense on paper. But when you
4 look at the FDIC controlling the bridge board of
5 directors and then you look down at the report
6 hire and terminate officers and officials other
7 than designated by key officers, it does seem de
8 facto that the FDIC retains complete control.
9 MR. TETRICK: Sure. I mean, and the
10 FDIC does to a degree ultimately retain complete
11 control in that it's the sole shareholder of this
12 bridge institution.
13 MR. COHN: Right.
14 MR. TETRICK: Right. That said, I
15 think what we're trying to do is specify certain
16 boundaries within which, you know, the new bridge
17 board and the executives at the bridge can operate
18 the things that they can do independently, the
19 things that they need to come back to us for non-
20 objection and the things that need sort of express
21 approval.
22 MR. COHN: I have no problem, this is

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1 no different than an existing company today. The
2 management team works for the board and the board
3 can replace the management team at any time.
4 MR. TETRICK: Sure. And that's by
5 design. We want this to look similar. I guess a
6 way in which the general relationship between, you
7 know, the board and the management and then the
8 FDIC and shareholder is a lot like any other
9 company. We again, that's sort of a principle in
10 resolution planning. So, we want this to look
11 like any other company. But there are differences
12 of course.
13 You know, there are going to be certain
14 matters of just public perception that we need to
15 help, you know, respond to or guide. And then,
16 you know, we mention here decisions about, you
17 know, access to the backstop funding. And then
18 importantly, this sets up the construct. But
19 there is also, what's the charge for the bridge?
20 And in the first instance it's, you know,
21 stabilize the critical operations and mitigate
22 systemic risk.

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1 But then it's to, you know, execute a
2 plan to exit from resolution. And so, you know,
3 we expect that, you know, we'll provide the bridge
4 with a broad strategy going into resolution that
5 will be consistent with, you know, some of the
6 statutory provisions that require us to have a
7 plan going in. And one of the first sort of
8 directives for the bridge will be to implement
9 that strategy, come back to us with a plan for
10 implementing that strategy we're generally saying
11 within 60 days. How are you going to carry out
12 the strategy? What changes may need to be, you
13 know, proposed to that subject to our approval so
14 that they can then, you know, make the changes to
15 the business and take the actions that they need
16 to get out of resolution.
17 MR. DELFIN: Gary, are there any ideas
18 for how we could make this better, a little more
19 functioning? That's one of the things we think a
20 lot about.
21 MR. COHN: No. It's very tough, right
22 because this is -- you're trying to thread a

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1 needle and I understand what you're trying to do
2 because this is corporate America is a good board
3 is responsible for the key hires and oversight of
4 the company as a fiduciary for the shareholders.
5 You are basically the shareholder. So your
6 oversight of the management is important. But the
7 more you have oversight as an entity and less
8 you're a fiduciary for a third party it becomes
9 more like it is in FDIC entity and resembles the
10 FDIC. So, I understand the conundrum here.
11 MR. DELFIN: It's a real one and our
12 team spends a lot of time trying to figure out
13 this governance because this is a place we could
14 easily, you know, trip up, you know, our internal
15 governance or our governance with the firm. It
16 looks like we may have lost Ryan for a little bit.
17 We're running a bit late on time so hopefully Ryan
18 won't mind. You know, we promised early on to
19 take a few minutes at the end and talk about some
20 of our work in the non-bank space.
21 You know, obviously, you know, G-SIBs
22 has been a big priority for the FDIC over the last

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1 few years particularly with the confluence between
2 Title 1 and Title 2. But, you know, as Director
3 Gruenberg and others have pointed out, you know,
4 we do have a responsibility for resolving, you
5 know, non-bank institutions if their failure could
6 threaten U.S. financial stability. We don't have
7 nearly the same tools there. But we have been
8 doing work. And so, we wanted to talk about, you
9 know, two things in particular.
10 One is a recent rule that we and the
11 SEC put together on the broker-dealer side. This
12 is very much a contingency effort. And then some
13 work we're doing still at the early stages on
14 clearing houses. So, I was going to hand it over
15 to Alexandra Barrage who is associate director of
16 our Policy and Data Analytics Group to talk a bit
17 about the broker-dealer space and then Jenny
18 Traille on CCPs. Alex? Are you out there? Maybe
19 she's muted.
20 MS. BARRAGE: Can you all hear me now?
21 MR. DELFIN: Yes, perfect although
22 there is a little echo.

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1 MS. BARRAGE: Okay. Is that echo still
2 there?
3 MR. DELFIN: No, it's gone. You're
4 perfect.
5 MS. BARRAGE: Okay, great. So, when
6 you think about these two examples there are some
7 common challenges. And one of those challenges is
8 just the fact that the FDIC does not have direct
9 supervisory authority and access to certain data
10 that we would need in a Title 2 scenario. In some
11 cases we don't have Title 1 plans and we rely in
12 the bank space certainly on these Title 1 plans
13 for giving us key information. Some of that
14 information we've already talked about, estimated
15 liquidity and capital needs, modeling
16 capabilities.
17 So, as if this wasn't hard enough we
18 are even in some ways at a greater disadvantage
19 not having those specific tools for that specific
20 window into a broker-dealer or a CCP. So, how do
21 we work around these challenges? First, I think
22 as Ryan touched on pretty extensively, we work

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1 very closely with our regulatory colleagues
2 domestically and internationally. We are very
3 mindful of the data sharing agreements we have
4 with other regulators.
5 We always want to make sure they're
6 managed and current. We also think a lot about
7 different resolution strategies as they pertain to
8 different types of entities or financial
9 companies. We've talked about SPOE and multiple
10 point of entry as different strategies. We think
11 a lot about the value or the potential value that
12 a bridge financial company and OLF liquidity could
13 bring to any one of those resolution scenarios.
14 And every day we work very closely with our data
15 analytics and our risk assessment teams to monitor
16 market events, including with our stakeholders.
17 So, those are just some of the strategies we
18 employ given those handicaps.
19 Next slide please, Dave. I'm going to
20 quickly just touch on the broker-dealer role that
21 Rick mentioned earlier. This broker-dealer role
22 is actually required by the Dodd-Frank Act. And

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1 last June we and the SEC issued that rule which is
2 basically a rule that addresses the orderly
3 liquidation of a broker-dealer. In that kind of
4 scenario the FDIC is actually consulted. We are
5 not technically a key turner, excuse me, as the
6 SEC would be in that scenario.
7 But basically what the final rule does
8 is it contains some clarifying provisions relating
9 to this broker-dealer scenario which, you know, I
10 think it's safe to say we don't see it as a likely
11 scenario. We would hope that in any material
12 financial distress single point of entry would
13 work but that there could be circumstances where
14 SPOE is not available. And so, basically these
15 implementing provisions explain sort of the
16 mechanics of what we have, what would occur. We
17 would need to make sure that the resolution is
18 accomplished in a way that ensures that the
19 customers of that broker-dealer receive payments
20 or property at least as beneficial to them as they
21 would have received had that broker-dealer been
22 liquidated under SIPA, under the Securities

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1 Investor Protection Act.

2 So, a lot of those provisions are quite
3 parallel to that other regime. In doing so we
4 collaborated pretty closely with the SEC in
5 issuing that final rule. And so, that's just one
6 example of stakeholder engagement to make sure
7 that we promulgate a rule and that we get, we
8 address the potential and eventuality of that
9 scenario which we hope is pretty minimal or we
10 expect would be pretty minimal.

11 So, I'm going to turn it over to Jenny
12 Traille to discuss CCPs. Jenny?

13 MS. TRAILLE: Great. Thank you, Alex.
14 So, very much at the outset we did want to take
15 some time to talk about some of our existing work
16 and ongoing efforts to address the challenges of
17 CCP resolution. So far today we've been focused
18 on resolution response for G-SIBs. But the FDIC
19 could also be called upon to resolve a CCP if its
20 failure could threaten the U.S. financial
21 stability.

22 And before getting into that work more

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1 specifically, it is worth noting that CCPs have a
2 long track record of resiliency of generally
3 continuing to function with confidence during
4 periods of financial stress. Systemically
5 important U.S. CCPs are designed to be, for lack
6 of a better word, solvency resilient from member
7 failure because they have rule book arrangements
8 that comprehensively allocate losses away from the
9 CCP and provide an ability to call for additional
10 resources from their members.
11 And these tools are intended to protect
12 the clearing function and to avoid the possibility
13 that we reach a point a resolution is necessary.
14 Nevertheless, it is important to recognize that
15 many of these tools remain untested. And while we
16 are grateful for the CCP's track record of
17 resilience, it doesn't negate the need for our
18 resolution planning. So with that we wanted to
19 provide some quick overview of some of our key
20 objectives and challenges to this work.
21 So, given the CCP's important role in
22 the financial system and specifically the fact

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1 that they're clearing services are central to the
2 proper operation of U.S. financial markets, we are
3 keenly focused on resolution outcomes that both
4 avoid or mitigate serious adverse effects on U.S.
5 financial stability and that ensure that the
6 critical services that the CCP provided will
7 continue to be available to the financial market.
8 And to that end we were together and with our U.S.
9 interagency colleagues on advanced planning to
10 identify, understand and find ways to mitigate
11 obstacles to successful CCP resolution. This is
12 where we really want to spend some time by
13 outlining some of those key challenges.
14 So, as Alex mentioned earlier as part
15 of the challenges for non-banks generally we do
16 not have a back-up supervisory role with CCPs like
17 we do for G-SIBs. And so, our resolution planning
18 work has inherently been underpinned by strong
19 cooperation with our U.S. interagency colleagues.
20 And the FDIC's resolution planning tools for CCPs
21 are also quite different than for banks. And
22 although the CFTC and SEC do require CCPs to

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1 prepare recovery and wind down plans, CCP's are
2 not required to file Title 1 plans. So, therefore
3 there is no equivalent process through which the
4 FDIC can identify deficiencies to resolvability of
5 the CCPs and have them remedied.
6 Another important key difference and
7 challenge is timing. For CCPs we may have a very
8 limited amount of time and run off or runways of
9 failure unlike a G-SIB where there is runway that
10 would be likely this event could happen more
11 quickly. And if that were to happen it could
12 require our resolution actions to occur within a
13 very tight time frame. Compounding that
14 difficulty is the fact that a short runway could
15 also mean that information on losses or on
16 financial position generally might be unavailable
17 or unreliable.
18 And in addition, if resolution is
19 appropriate and keys are turned strategies to
20 promote the continuity of these critical services
21 and orderly market functioning will be critical.
22 So, the challenge is different than single point

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1 of entry for G-SIBs for a variety of reasons. In
2 general, CCPs do not operate with pre-funded loss
3 absorbing resources that can be used to
4 recapitalize for the operations. Instead, they
5 rely on risk management tools like margin and T-
6 Funds and assessments from clearing numbers.
7 In a resolution context authorities may
8 be able to use some of these tools and resources
9 to the extent that they are still available and
10 were not exhausted throughout the recovery
11 process. But there could be tradeoffs such as the
12 potential that using those tools could be post-
13 cyclical and affect markets in unexpected ways
14 given the highly stressed state that would likely
15 exist in such a scenario.
16 So, as a result there are limited
17 choices for resolution. To scope this challenge
18 in our regular work we consider the adequacy of
19 the CCP's resources for resolution along with the
20 powers and resources available to the FDIC under
21 Title 2. And we aim to provide, develop and
22 provide strategies that would give us some degree

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1 of optionality because we know that we won't know
2 in advance how the CCPs might feel. But we do a
3 number of the likely challenges.
4 And so, our work seeks to develop
5 options to increase our capability to invest in
6 scenarios and mitigate those likely obstacles.
7 So, our work is ongoing. And while we've made
8 meaningful progress we are still in early stages,
9 as Rick mentioned. And this is especially true
10 compared to the G-SIB resolution planning space.
11 So, with -- pause there and try to make it through
12 a little bit of how we work on some of these
13 issues. Is there a question or I'll move quickly?
14 MR. COHN: I have a really quick
15 question. So, the CCP is always interesting to me
16 because it's a socialization of the risk. And so,
17 and like a very important mechanism and so don't
18 ever want to underestimate it. But if you were
19 ever to have a very large default in a CCP, you
20 sort of have a prisoner's dilemma. You could go
21 out and assess members, broker-dealers and banks
22 and then potentially fail them or you could try

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1 and confine the risk to the CCP. How do you guys
2 think about that?
3 MS. TRAILLE: Rick, do you want to jump
4 in?
5 MR. DELFIN: Sure, yes. I was muted.
6 So, Gary, I think that's exactly right. So, we've
7 taken a number of steps to minimize the risks to
8 the CCP and then there is questions about what you
9 do after it.
10 So, you know, first in the default loss
11 worlds, right that is members failing to the
12 degree these members are large G-SIBs and the
13 single point entry strategy which would
14 recapitalize the material entities and ensure that
15 they can continue to service the CCPs itself
16 supports CCP resilience, right. The first domino
17 is not falling in nearly as destructive a way as
18 you would have before. So, that should, you know,
19 if SPOE is available for the clearing member move
20 out the spectrum of probability of default or
21 challenges in CCP land.
22 That's the good news. But, you know,

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1 if we get to the scenario where nonetheless the
2 losses exceed, you know, guaranteed funds there is
3 this question, and this is something that we and
4 international regulators are actively look at,
5 about whether some of the tools that CCPs might
6 use, that is assessments, et cetera are themselves
7 pro-cyclical. That is whether there is a
8 financial stability impact from asking for a great
9 deal of money or doing variation margin gains hair
10 cutting or doing partial tear up that itself
11 transmits systemic risks from the CCP out to the
12 clearing members and completes this pro-cyclical
13 problem.
14 So, that's the key question that we're
15 asking on the default loss side. And are there
16 ways that resolution can step in and provide a
17 different outcome to avoid that? And so, one of
18 the ideas is well what if the resolution authority
19 can provide liquidity so that you don't instantly
20 have to go out and assess those members? Next
21 question is, well on what basis would we provide
22 liquidity?

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1 Well, you know, maybe there are assets
2 that we can use to provide liquidity for to change
3 the outcome of that transmission channel. So,
4 that's real. You know, alternatively there are
5 potential non-default losses that aren't as clear
6 about how they transmit into the system but are
7 nonetheless issues that resolution authorities
8 need to look at in the CCP space. So, we're
9 looking at both of those. But I think you
10 absolutely pointed at the exact issue that we're
11 all struggling with.
12 MR. BODSON: I would add to that,
13 sorry, this is Mike. I would add to that the
14 complexity of that it's in very, in many ways a
15 very closed system. So, my ownership structure,
16 my margin, my liquidity providers are all the
17 same. So, Gary, right to your point but at the
18 end of the day it's almost, you know, it is the
19 two prisoner's dilemma of sorts.
20 I think what you've raised on the
21 FDIC's lend structure really is a critical factor
22 because obviously we do have, you know, recovery

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1 wind down plans. We have tools available to us to
2 hopefully mitigate and in reality it would be a
3 situation where multiple G-SIBs would be failing
4 would, you know, create a default liquidity issue.
5 But it would be good for us to sit down with the
6 FDIC, with the SEC and work through those
7 scenarios.
8 When it comes to broker-dealers just a
9 last point, they have the resolution of broker-
10 dealers in the past have gone very well be it in
11 the Lehman, et cetera, non-banks. But again, as
12 I said in the beginning it's not just the retail
13 broker-dealers that you have to worry about. A
14 lot of tools are in place because of SIPC because
15 of bulk transfer, you know, exercise, et cetera,
16 et cetera. I think it's the growth of the non-
17 retail oriented broker-dealers in the industry as
18 we spoke about before, that they would have on the
19 market that really has to be examined.
20 MR. HERRING: Rick, I would also like
21 to add that I'm delighted you're tackling this
22 problem. It seems to me that it's one created in

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1 large part by the post-crisis regulation that has
2 shifted derivatives trading by and large out of
3 banks into CCPs. So, however systemic they were
4 before they're much more so now. And the FSB
5 seems to be accomplishing almost nothing with
6 regard to making systems safe for the failure of
7 a CCP.
8 So, I think this is terrific work. I
9 guess I would encourage you to think about
10 incentives for proper risk management and whether
11 there really are sufficient incentives in place in
12 the structure of CCPs to have them act as really
13 good stewards for controlling and limiting
14 systemic risk. But also to try to think about
15 making a separation between operational
16 liabilities that really do need to be protected
17 because it is the very life blood of the financial
18 system and thinking about perhaps the category of
19 financial liabilities that could be used to create
20 a bit of a buffer.
21 But I think the point that there are
22 huge interconnections here cannot be overlooked.

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1 It really needs to be thought out in terms of
2 repercussions for the members that will bear
3 losses in the event of a bad outcome and what that
4 means for the banking system, for other CCPs, for
5 the whole system itself. So, I'm delighted to
6 hear you're making progress and will look forward
7 to hearing the next report.
8 MR. DELFIN: Thanks.
9 MR. REED: Can I say something? This
10 is John Reed.
11 MR. DELFIN: Of course, please.
12 MR. REED: I'm very impressed by the
13 work you're doing. I assume you've looked at the
14 risk that a crisis would come from a digital hack
15 and that you would find yourself with one of these
16 clearing systems that could not function but it
17 was not necessarily a financial failure, but you
18 had some kind of interference digitally and what
19 that might mean.
20 MR. DELFIN: Yes. So, cyber and the
21 impact of cyber and resolution is an enormous
22 issue and not just in CCP space. That is, you

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1 know, we think about that challenge across our
2 traditional, you know, resolution world. You know,
3 obviously resolution isn't normally thought of as
4 a solution to a cyber problem. We don't have any
5 magic wand to unwind, you know, whatever might be
6 breaking down a system.
7 But nonetheless, you know, that is an
8 evolving risk and something that we are looking at
9 across, you know, various areas of responsibility
10 on the resolution side. It's a very real issue.
11 And maybe that should be a topic for future SRACs.
12 That's a good one.
13 MR. BODSON: My first day as the CEO of
14 DTCC was Knight Capital.
15 MR. DELFIN: Gosh.
16 MR. BODSON: So, cyber hack -- to
17 affect a technological failure it was a hell of
18 way to start my job. But, yes, if there is a non-
19 default situation it would be either inadvertent
20 or a, you know, a purposeful attack of technology
21 that creates a massive loss much beyond anything
22 we have ever seen. In that case, it was $400

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1 million it was manageable. I hate to say $400
2 million is manageable but it was.
3 But, you know, it would be something
4 that, you know, would spread risks throughout the
5 NMS and, you know, cause havoc. So, that would be
6 a great follow up.
7 MS. O'CONNOR: Yes. And, Rick, look I
8 think the work here, you know, sort of early days
9 is both impressive and it's great to see the level
10 of understanding that you all have around this.
11 The second piece and, you know, Mike, you were
12 talking about the mutualized model and the
13 distinction between a non-fully mutualized model
14 and a demutualized model where there is the
15 difference between the ownership structure and who
16 ultimately bears the risk of loss because that's
17 sort of partially about the model and that
18 actually creates some fundamental risks.
19 And I think, you know, a very worthy,
20 good to hear you talking about the risks related
21 to some of the recovery and resolution tools that
22 could be at hand whether it's, you know, the

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1 ability to assess in an unpredictable and
2 unlimited manner or pair ups of contracts both
3 partially or fully how they could be used and who,
4 I could say who should be using them.
5 I think that would be a very important
6 area to understand again back into that
7 demutualized model. If the year is capped under
8 FDIC, for example, that could have very different
9 market run implications hopefully not stability
10 implications rather than what's in the banks with
11 the original ownership. So, I just put those out
12 there. I'm sure you're thinking of them to come
13 back to at a future point.
14 MR. DELFIN: That's great. Thank you.
15 So, cognizant of time we have run over a little
16 bit. I wanted to, you know, first, you know,
17 thank all of you for your participation today.
18 You know, the conversation has been exceptional as
19 always. I have written down, you know, a number
20 of items on my to do list and I just wanted to,
21 Dr. Bernanke asked about, you know, multiple
22 failures and also the connection between stress

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1 testing and resolution readiness.
2 You know, Chairman Bair talked about,
3 you know, some of the challenges on the regional
4 bank resolution side and also bridge duration.
5 You know Sandie O'Connor talked about the
6 relationship between, you know, financial
7 resources available to avoid failure. That is the
8 size of the hit you can take and still survive and
9 also, you know, making sure that there are
10 sufficient resources on the resolution side and
11 how do those two connect to make sure that we have
12 a more resilient system.
13 Director Gruenberg talked about the
14 importance of non-bank work which we updated on.
15 And then, you know, Judge Drain, Chapman and Don
16 Kohn all talked about this relationship in
17 bankruptcy between, you know, our planning here
18 and how that works with foreign regulators and the
19 role that foreign regulators play and the need for
20 them to understand how bankruptcy would work in
21 order to see if that process is available.
22 You know, Gary Cohn talked about the

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1 challenges in bridge governance and that
2 relationship between, you know, the FDIC a single
3 shareholder and the new board and management and
4 making sure that we get that right so that we're
5 not tripping over ourselves when we come to
6 actually running this institution. Dick Herring
7 talked about, you know, liquidity and, you know,
8 resolution liquidity making sure that's not a
9 problem. Peter Fisher asked us about how to think
10 about the relationships and risk in the market
11 overall and whether we can draw any conclusions
12 based on recent actions.
13 I want to just thank you all again for
14 doing this, we have learned a lot. You know, the
15 team has spent a great deal of time pulling this
16 together. I hope you saw some of the benefits
17 that came from this new collaboration which we
18 think is pretty essential. And so, with that I'll
19 hand it over to my Chairman McWilliams to just for
20 any closing remarks.
21 CHAIRMAN MCWILLIAMS: Thank you, Rick,
22 and thank you, everybody. It was a phenomenal

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1 discussion and you delivered more than we
2 expected. But now I'm wondering if we should add
3 some members who are going to ask easier
4 questions. In any case, you did exactly what we
5 wanted you to do. Make us think about things that
6 could happen that we're thinking about but need
7 deeper and more complex investigation on our end
8 and we look forward to continuing this discussion
9 hopefully in person next time.
10 But until then, please keep safe and I
11 cannot thank you enough for your contribution
12 today. Thank you.
13 (Whereupon, the above-entitled matter
14 went off the record at 12:09 p.m.)
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In the matter of: Systemic Resolution
Advisory Committee

Before: FDIC

Date: 10-01-20

Place: teleconference

was duly recorded and accurately transcribed under my direction; further, that said transcript is a true and accurate record of the proceedings.

Court Reporter

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