Deloitte.

Center *for* Regulatory Strategy US

FDIC approves final guidance to enhance resolution planning at large banks

Initial perspectives related to the Federal Deposit Insurance Corporation and Federal Reserve guidance on further developing resolution plans for triennial full filers

On July 30, 2024, the Federal Deposit Insurance Corporation (FDIC) Board of Directors unanimously approved final guidance for Title I Resolution Plan triennial full filers[1] largely as proposed and extended the submission deadline from March 31, 2025, to October 1, 2025. The guidance, developed jointly with the FRB (collectively, Agencies) applies to domestic and foreign banks with more than $250 billion in total assets that are not global systemically important banks (GSIBs). Development of the guidance came about in response to FDIC staff determinations that a number of resolution plans from covered institutions failed to address with sufficient rigor certain challenges to their resolution strategies and relied on simplified assumptions.

5 insights you should know

Guidance has been largely adopted as proposed and remains a significant uplift: The final guidance, which was parsed into specific guidance issued for domestic and foreign banking organizations (FBOs), largely reflects the proposed version that was previously issued, reflecting significantly higher and more demanding expectations. The Agencies are focusing on the banks' capabilities that support resolvability without offering overly prescriptive instructions on banks' implementation of those capabilities.

Regulators indicated no preference in banks' resolution strategy: The regulators have clarified that they have no preference in the resolution strategy banks choose to adopt (e.g., multiple point of entry (MPOE) or single point of entry (SPOE)). Instead, banks should choose a strategy that reflects their characteristics and operations and supports the goal of orderly resolution while minimizing impact on US financial stability. Ultimately, firms should select a strategy that can be executed credibly.

There is no iterative submission process: The final guidance sets a higher bar for the resolution plans. Unlike the previous guidance, which allowed for an iterative process between the Agencies and firms to evaluate the feasibility of the resolution plans, the final guidance requires firms to submit credible plans at the time of submission. This means that the firms must have credible capabilities in place at the time of submission to support their resolution strategy, including if a firm transitions from MPOE to SPOE strategy.

There are no expectations for derivatives and trading activities: The Agencies reserve the right to establish expectations in the future for firms that significantly expand or change their trading activities in a way that affects their resolution. The group and its subsidiaries do not need to provide any analysis of the unwind of the derivatives portfolio for the next plan submission, but the Agencies may ask for such analysis in later submissions for firms where derivatives and trading are key factors in their resolution.

Separability's standalone section was removed but remains an agency expectation: While the final guidance has removed the separability section from the proposed guidance, the preamble to the guidance affirms that there are expectations in the 165(d) rule[2] addressing separability requirements. This was also reinforced at the FDIC Board meeting where the guidance was approved.

5 considerations to evaluate

1 **The clock is ticking:** The Agencies have given banks time to digest the proposed rules, and now the expectation is that banks will plan and execute swiftly and effectively to meet the standards. As part of this evaluation, banks should look for opportunities to identify areas where uplift is required, particularly in critical areas for resolution planning, which may differ depending on the identified strategy (e.g., liquidity, legal entity rationalization, separability, and critical services).

2 **Establish a credible capabilities testing program:** A strong resolution capabilities testing program and framework is not only a regulatory expectation, but also a strategic imperative to demonstrate the credibility of underlying capabilities. Programs should include clear policies and procedures, an inventory of capabilities, a risk-based prioritization process, and a multi-year schedule of testing activities. The expectation is that the resolution planning capabilities are routinely calibrated and tested and it becomes a business-as-usual activity. A well-executed capabilities testing program demonstrates the bank's effective and reliable execution of its resolution strategy in a crisis scenario.

3 **Consider resolution planning resource allocation:** Banks should draft operational plans to bring resolution capabilities in line with the finalized guidance, including allocating adequate resourcing toward incremental work that may be required as a result. Banks should further consider the potential impact of the guidance on already existing challenges, such as potential staffing and skills gaps, reliability of underlying data, supporting processes and technology, and governance. As such, institutions may need to direct more resources towards compliance and resolution planning.

4 **Revisit processes and tooling:** The complexity and manual nature of many banking processes can introduce risks and inefficiencies. Leveraging 'business as usual' processes, in addition to automating these processes, is not merely a means to enhance operational efficiency but may also add credibility to a bank's resolution capabilities as the institution may more reliably and efficiently execute these plans under stress. Banks should consider opportunities to integrate automation in areas to improve operational resilience, such as data collection, validation, aggregation, and reporting.

5 **Enhance resolution planning governance for strengthened credibility:** Establishing a strong governance framework is a key consideration for resolution planning. The governance framework should clearly define roles and responsibilities of senior leadership and central resolution planning teams, as well as the federated stakeholders, connecting to the existing governance structures where possible. The Agencies also expect strong integration of the second and third lines in the review and challenge of resolution plans, capabilities, and capabilities testing.

Endnotes

[1] Federal Deposit Insurance Corporation (FDIC), "FDIC Approves Final Guidance to Enhance Resolution Planning at Large Banks," press release, July 30, 2024.

[2] FDIC and Federal Reserve Board of Governors (FRB), "Resolution Plans required," *Federal Register,* December 31, 2019.

Connect with us

Richard Rosenthal
Principal
Deloitte & Touche LLP
rirosenthal@deloitte.com

Olga Kasparova
Managing Director
Deloitte & Touche LLP
okasparova@deloitte.com

John Corston
Independent Senior Advisor to
Deloitte & Touche LLP
jcorston@deloitte.com

Sean Hodgkinson
Senior Manager
Deloitte & Touche LLP
seahodgkinson@deloitte.com

Martin Prince
Senior Manager
Deloitte & Touche LLP
maprince@deloitte.com

Christopher Batt II
Manager
Deloitte & Touche LLP
chrbatt@deloitte.com

Deloitte Center for Regulatory Strategy, US

Irena Gecas-McCarthy
FSI Director, Deloitte Center for Regulatory Strategy, US
Principal
Deloitte & Touche LLP
igecasmccarthy@deloitte.com

Aaron Salerno
Manager
Deloitte Services LP
asalerno@deloitte.com

Kyle Cooke
Manager
Deloitte Services LP
kycooke@deloitte.com