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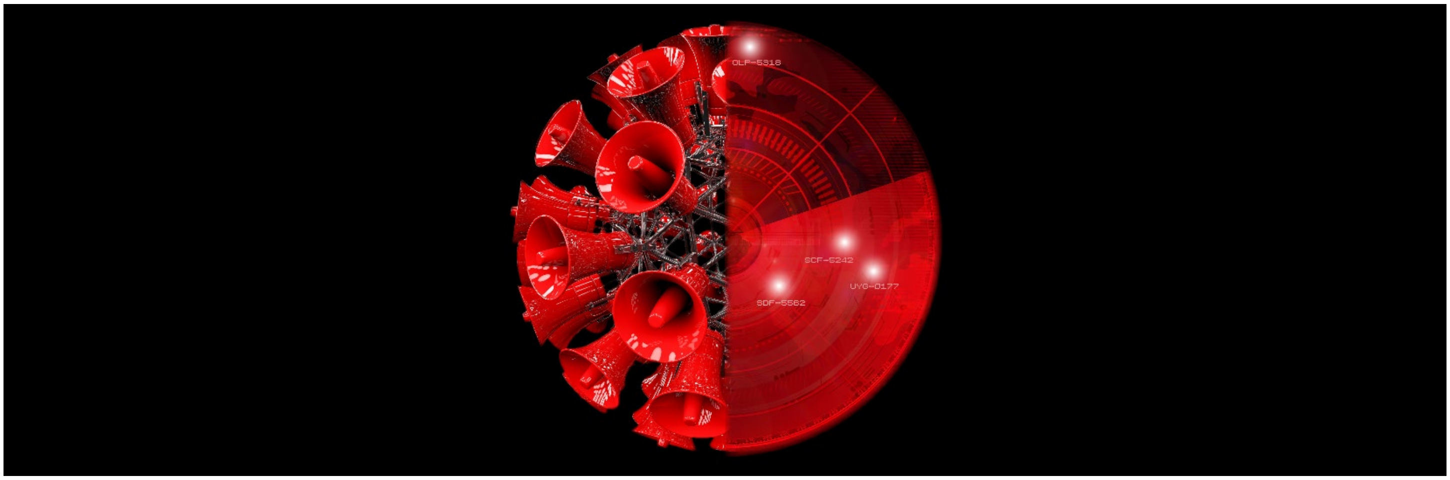


Agencies are expecting banks to offer coronavirus response outcomes and lessons learned in their next round of resolution plans

More than just a targeted resolution plan

On July 1, 2020, the Federal Reserve Bank (FRB) and Federal Deposit Insurance Corporation (FDIC), together referred to as the "agencies," released a joint statement[1] (Statement) informing the eight largest domestic banking organizations (the US Bank Holding Companies that are US globally systemically important institutions) that their next resolution plan submission will need to include additional information that will provide the agencies with a better understanding of how their resolution planning capabilities fared in response to the coronavirus. This new "Targeted Information Request" will be added as part of their next resolution plan submission that is scheduled for July 1, 2021 (2021 Submission).[2]

The new request expands on the expected information required in the targeted response to also capture linkages between lessons learned across the coronavirus response and resolution activities that were incorporated into the resolution planning process.[3] Prior to the agencies' Statement, the 2021 Submission had been expected to be the banks' first iteration of a 'Targeted' resolution plan, which is a lighter version than a 'Full' resolution plan. The eight largest domestic banks alternate their bi-annual resolution plan submissions between 'Targeted' and 'Full' plan submissions.

Coronavirus response, the "first major test"

The Targeted Information Request that has been added to the next resolution plan submission will provide the agencies with valuable insight into what did and did not work in terms of actions taken by the largest domestic banks in their coordinated response. FRB Vice Chairman for Supervision Randal Quarles said in a recent speech that "[t]he containment measures of the COVID event represent the biggest test that the financial system has faced since the global financial crisis of 2007-08." [4] Since the financial crisis, Quarles noted that financial firms have spent the last decade improving their resolvability and resolution preparedness capabilities as documented in their resolution plans. Quarles continued that "banks entered the current crisis in a much stronger position than they did the global financial crisis […] and are much better capitalized and more liquid than back in 2008."

According to Quarles, banks entering the pandemic-related crisis from a position of strength, is "a direct outcome of the G20 regulatory reforms adopted in the aftermath of that crisis and measures taken by the banking industry, which have improved the resilience of the core of the financial system." At the center of those reforms is the creation of firm-specific resolution plans, which have matured into a 'business as usual' exercise embedded in the bank's governance and operating processes.[5]

The coronavirus pandemic represents the first major test for the financial system since the global financial crisis and provides an opportunity for banks to highlight their strength, resiliency, and operational preparedness across their stress monitoring processes. Prior to the pandemic, banks were actively monitoring industry-wide and firm-specific metrics and defined triggers to determine if plans and playbooks needed to be activated. It is expected that many firms activated their plans and playbooks as part of a coordinated response effort to early warning indicators (e.g., changes in liquidity coverage ratio "LCR," credit spreads, stock price, unemployment, etc.).

What are the expectations for these targeted plans?

In addition to the Targeted Plan sections, the Targeted Information Request will address how certain resolution planning capabilities have been leveraged as part of the response to the pandemic. The table below outlines the key components of this request:

<table>
<tr><th>Targeted Plan Sections, previously expected</th><th>Targeted Information Request, recently added</th></tr>
<tr><td>

Core Elements

Capital
Liquidity
Plan for executing any recapitalization
Quantitative financial information and analysis

Description of each material change experienced by the Company since its previous Plan (or acknowledgment of no changes)
Description of changes to its Plan due to changes in law or regulation, guidance or feedback from Agencies
Response to previously identified shortcomings (if applicable)
Public section

</td><td>

Discuss the linkages between coronavirus response and resolution-related capabilities through 2020
Lessons learned and discussion whether changes have been or will be incorporated into resolution plan

Trigger framework
Forecasting capabilities
Reporting/escalating of information
Resolution planning infrastructure

Description of changes to its Plan in response

</td></tr>
</table>

With a reporting "as-of date" of December 31, 2020, during a period in which much of the information requested is expected to be still in flux, the submission deadline of July 1, 2021 could be a challenge to an otherwise fully subscribed workforce, still actively involved in the coronavirus response or other financial event, and potentially creating a resolution plan from a remote location.

What are the key takeaways?

While the regulators say no response is necessary if not applicable, the message appears to be that regulators do not expect the resolution plans to sit on a shelf until the next regulatory update. They may want to see how dynamic and integrated their efforts are into business as usual and how these plans are updated at the impacted firms.

Below are some points that make this communication noteworthy:

- Capturing the impact of the coronavirus response goes beyond what normally would be an update to an existing plan
- The coronavirus could potentially impact processes related to capital, liquidity, triggers, reporting/escalation and infrastructure where the resolution plan has dependencies
- Most of these dependencies are still evolving so the full impact may not be known until the end of the year or beyond
    - CCAR capital stress tests will be updated, likely in the third quarter/fourth quarter 2020, that could impact approaches to capital forecasting and impact triggers. Further, processes to estimate the impact of monetary and fiscal stimulus and lending forbearance on possible credit losses will be a critical input into the planning effort.

    - Understanding how Resolution Capital Execution Need (RCEN), Resolution Liquidity Execution Need (RLEN) and Resolution Liquidity Adequacy and Positioning (RLAP) were leveraged and if any recalibration has taken place will need to be addressed
    - Changes to assumptions with RCEN, RLEN and RLAP could have a broader impact on the resolution plan
    - Market volatility and challenges producing accurate and timely capital/liquidity metrics could be an issue for some firms
- The linkage to reporting throughout the stress continuum should be addressed along with escalations as impacted by the coronavirus, which is outside the normal resolution scope. Business as usual practices likely changed so the process for that change and how it would eventually rollup to resolution action will need to be captured
- Understanding how the coronavirus impacted critical operations, infrastructure, shared and outsourced services (e.g., IT service providers) and financial market utilities (FMUs) is something that is not normally in scope so this will provide a real-time look at how firms are responding
- Understanding how the coronavirus impacted key personnel is also not normally in scope, however changes to the number of staff required to execute the resolution plan by role and location will have downstream impacts on capital and liquidity assumptions and determination of material entities
- Agencies would likely expect at least some of the requested areas within the Targeted Information Request to apply in some manner to each firm and will likely be looking to understand the level of integration to their resolution plans
- For the firms that have made resolution planning more of a reporting exercise handled by a separate group, this update may end up being more of a challenge to demonstrate the integration

While targeted, this request takes the process outside of the planned scope for the 2021 plans scope and would likely add significant effort on processes as they are being implemented and impacts that are still materializing. This will make the timing to produce an otherwise standard update significantly more burdensome at a time when resources are stretched and largely working remotely.

What can financial firms do to start preparing?

The Targeted Information Request and other expected components for the 2021 Submission will likely rely heavily on bank employees with the institutional knowledge to provide accurate and timely information, including data specific to the coronavirus response. A well-coordinated plan led by the bank's resolution planning office or similar function will be necessary for gathering the right resources and supporting information in time for a credible submission. At a minimum, liquidity and capital teams that are assessing and incorporating changes into models, contingency funding, and business as usual processes will need to provide input into how those changes, when considered holistically, impact the resolution plan. Below are some other activities banks can consider in their planning to achieve these goals:

- Determine what aspects of the resolution plan submission can be performed prior to December 2020
- Update the resolution planning activities and timelines to incorporate the impacts from the Targeted Information Request for the 2021 timeline
- Identify resources involved in the coronavirus response coupled with knowledge of response and ability to leverage operational resiliency resources with resolution planning
- Identify plans and playbooks activated or which should have been activated and evaluate the effectiveness of the recovery options taken
- Gather reporting information used for ongoing monitoring of key resolution metrics including targets, triggers and thresholds
- Prepare to gather financial challenges (e.g. capital and liquidity forecasting and assumptions) identified during response effort and their respective mitigations and KPIs to measure the success of the mitigations
- Prepare to gather operational and technical challenges (e.g., business continuity and information security, shared services, outsourced services, etc.) identified during response effort and their respective mitigations and KPIs to measure the success of the mitigations
- Determine who needs to review the resolution plan submission and impacts to the review timeline as part of the governance sign-off

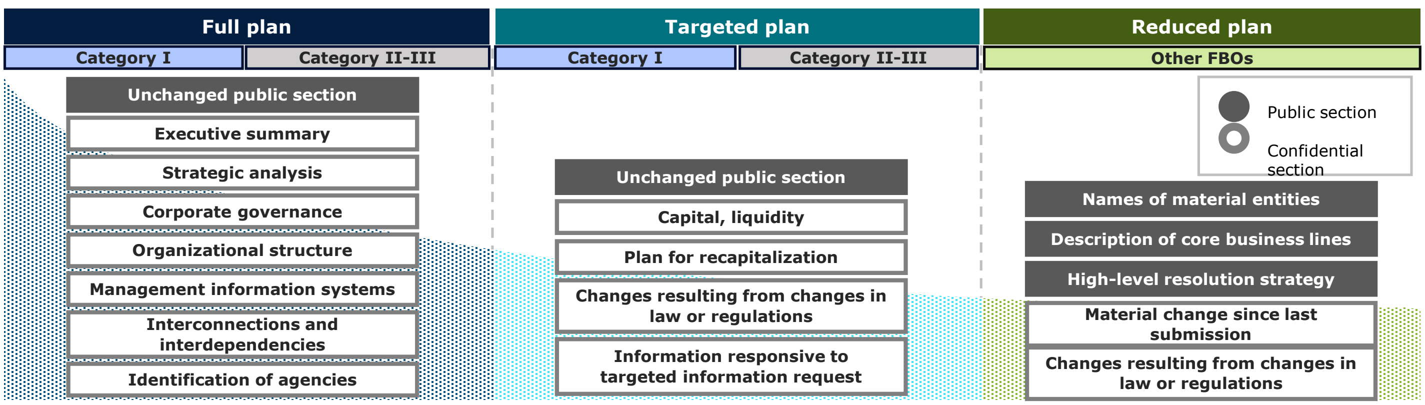
What are the potential impacts to smaller and foreign banks?

As is often the case when it comes to resolution planning, guidance for the US bank holding companies (BHCs) that are part of Category I becomes guidance for the remaining categories. Smaller domestic banks, as well as foreign banks, may be asked for similar information as part of their next subsequent resolution plan submissions. The timeline below includes plan types and expected due dates by category. While the Statement does not directly address these other institutions, these firms may expect to provide similar information about their coronavirus or other future responses to other financial events.

- Category II banks[6] (i.e., US firms and foreign banking organizations "FBOs" with more than $700B total consolidated assets) and Category III banks (i.e.,, US firms and FBOs with ≥ $250b and < $700b total consolidated assets) are expected to provide a Targeted Plan by September 29, 2021.
- Triennial Reduced Filers (i.e., FBOs with more than $250B global consolidated assets) are expected to provide a Reduced Plan by July 1, 2022.

Content and upcoming submission cycles by resolution plan filing group

High-level overview resolution plan content requirements and submission cycles for the four different filing groups. In the Final Rule, the agencies committed to providing feedback on plans within twelve months of submissions.



Revised in May 2020 due to COVID-19

Filing group	2020*	2021	2022	2023	2024	2025	2026	2027
Category I: US G-SIBs		Targeted plan July 1, 2021		Full plan July 1, 2023		Targeted plan July 1, 2025		Full plan July 1, 2027
Category II: US firms and FBOs with ≥ $700b total consolidated assets		Targeted plan September 29, 2021			Full plan July 1, 2024			Targeted plan July 1, 2027
Category III: US firms and FBOs with ≥ $250b and < $700b total consolidated assets		Targeted plan September 29, 2021			Full plan July 1, 2024			Targeted plan July 1, 2027
Other FBOs: FBOs with ≥$250b global consolidated assets			Reduced plan July 1, 2022			Reduced plan July 1, 2025		

* Four FBOs are expected to provide the agencies submissions on September 29, 2020 to remediate their 2018 plan shortcomings (revised from original July 1, 2020 due to COVID). See December 2018 feedback and May 2020 notice

Conclusion

This is part of an ongoing series of analysis on the liquidity, capital, and "living will" conditions of banks in the current environment. We—like you—will continue to monitor developments as conditions evolve to reflect more current stresses related to the pandemic and its longer-term impact on the financial services sector and broader economy.

Contacts

Marlo Karp
Partner | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP

Alexandre Brady
Principal| Deloitte Risk & Financial Advisory
Deloitte & Touche LLP

Joan Cheney
Managing Director | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP

Chris Hogan
Senior Manager | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP

Sean Hodgkinson
Senior Manager | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP

Eric Monzon
Manager | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP

Deloitte Center for Regulatory Strategy

Irena Gecas-McCarthy
FSI Director, Deloitte Center for Regulatory Strategy, Americas
Principal | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP

Austin Tuell
Manager| Deloitte Risk & Financial Advisory
Deloitte Center for Regulatory Strategy
Deloitte & Touche LLP

Kyle Cooke
Senior Consultant | Deloitte Risk & Financial Advisory
Deloitte Center for Regulatory Strategy
Deloitte & Touche LLP

Deloitte Center for Financial Services

Jim Eckenrode
Executive Director, Deloitte Center for Financial Services
Managing Director| Deloitte Services LP
Deloitte & Touche LLP

Contributors

John Corston
Independent Senior Advisor to Deloitte & Touche LLP

Endnotes

1. Board of Governors of the Federal Reserve System (FRB), "Agencies provide largest firms with information for next resolution plans," accessed on July 10, 2020.
2. Section 165(d) of the Dodd-Frank Act and the Resolution Plan Rule requires certain financial companies to report periodically to the FDIC and FRB their plans for rapid and orderly resolution in the event of material financial distress or failure. On November 1, 2019, the FRB/FDIC published in the Federal Register amendments to the Resolution Plan Rule. Among other changes, these amendments, effective December 31, 2019, established a new type of resolution plan: a targeted resolution plan. The Covered Company will alternate between submitting a full resolution plan and a targeted resolution plan on a biennial cycle.
3. For more information, please see: Deloitte, "The Federal Reserve Board proposes amendments to resolution plan requirements," accessed on July 7, 2020.
4. FRB, "Global in Life and Orderly in Death: Post-Crisis Reforms and the Too-Big-to-Fail Question," accessed on July 7, 2020.
5. Deloitte, "The Federal Reserve Board proposes amendments to resolution plan requirements," accessed on July 7, 2020.
6. US Senate, Banking, Housing and Urban Affairs Committee, "S.2155 - Economic Growth, Regulatory Relief, and Consumer Protection Act," accessed on July 7, 2020.

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