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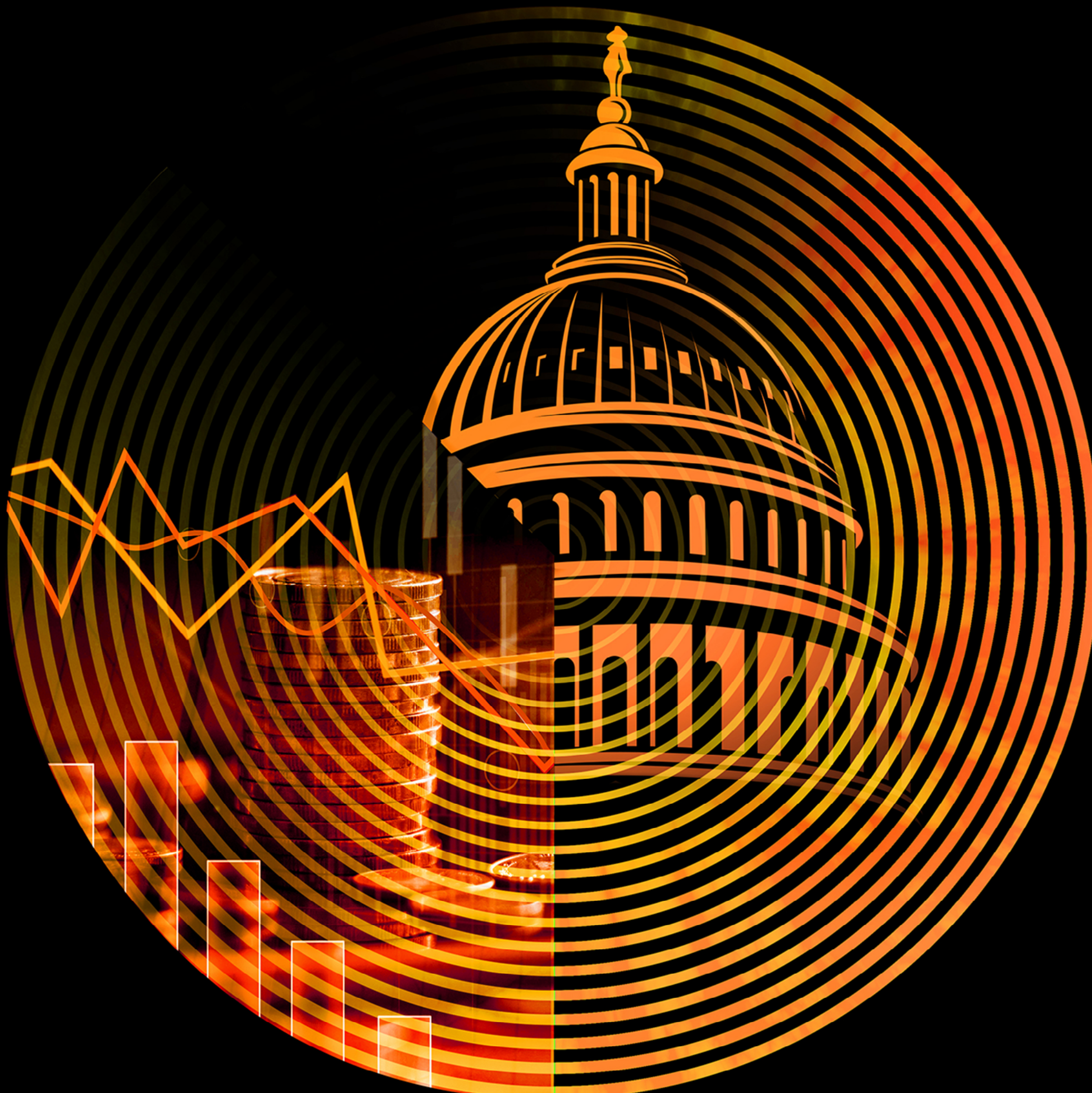

Building resilience: How financial institutions can prepare for resolution capabilities testing

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Center *for* Regulatory Strategy US

Building resilience

Resolution planning remains a central focus for financial institutions aiming to meet regulatory expectations and strengthen financial and operational resilience during periods of stress. Capabilities testing is a critical element that serves as demonstrable evidence that an organization can effectively execute its resolution strategy. Both the Federal Deposit Insurance Corporation's (FDIC) Insured Depository Institution (IDI) Rule and the Dodd-Frank Act Section 165(d) Title I Resolution Planning requirements demand operational readiness to demonstrate the credibility and operability of resolution strategies under adverse conditions.

Understanding capabilities testing

The FDIC's heightened emphasis on engagement and capabilities testing is underscored by recent guidance, including frequently asked questions[1] and public statements by FDIC leadership in various forums,[2] which reinforce that expectations around resolution planning are becoming increasingly operational and execution focused. Banks should demonstrate they are prepared for an orderly resolution, with particular emphasis on the ability to promptly sell assets and provide comprehensive data transparency, in response to the increasing regulatory preference for resolution weekend sales or short-term bridge bank arrangements.

Regulators have prioritized certain areas for capabilities testing in recent feedback:

- **Divestiture capabilities:** Banks should show ability to separate parts of the franchise, execute transfers of material asset portfolios or orderly sales of the entire IDI under stress scenarios. This includes collecting key information across the organization (e.g., loan and lending operations information), performing rapid and reliable asset and collateral valuations, identifying unencumbered assets, and establishing and populating a virtual data room (VDR) to support due diligence and execution by potential acquirers. Banks must demonstrate preparedness to divest business lines, subsidiaries, or portfolios in a manner that preserves franchise value and meets regulatory requirements for timely disposition.
- **Financial capabilities:** Banks should exhibit the ability to monitor and forecast funding, liquidity, and capital positions across resolution phases, while maintaining accurate financial statements (including at an unconsolidated level) and tracking exposures like qualified financial contracts. In resolution, banks must exhibit entity-level liquidity monitoring, rapid deposit access, and granular deposit information reporting.
- **Operational capabilities:** Banks should demonstrate the ability to maintain critical services, continuity of contracts, key systems, and key vendor services, including adequacy of contingency arrangements to identify and retain key personnel. Banks must also demonstrate the ability to maintain and, if necessary, efficiently wind down critical payments, clearing, and settlement operations, including identifying counterparties and relevant interdependencies. Effective operational readiness encompasses resilient capabilities for internal and external communications, including regulatory, legal, and media interfaces.

Key differences in approach for Group A and Group B institutions

As institutions face complex internal dependencies and evolving requirements, understanding the nuances between Group A and Group B[3] is key to success. Our perspective is that Group A institutions may face heightened regulatory expectations and more rigorous testing protocols. As Group B institutions grow in complexity, size, or risk profile (through organic growth or consolidation), they may be reclassified as Group A.

Therefore, early awareness and proactive preparation for those heightened standards are crucial for Group B institutions to provide for a seamless transition and ongoing compliance as they grow and evolve within the regulatory landscape.

The following table provides an overview of how capabilities testing approaches differ between Group A and Group B financial institutions.

Illustrative testing approach	Group A institutions	Group B institutions
Scope, frequency, and depth	Frequent, more in-depth testing, often scenario-based simulations, including playbooks and real-time drills. For the initial submission cycle, the FDIC informed it will be conducting a horizontal test of capabilities to establish and populate a VDR with information to support the ability of the FDIC to market and execute a timely sale or disposition of the IDI franchise.	Less frequent tests that typically align with filing cycles or as required by regulators. The depth of testing includes fewer scenarios, with a greater emphasis on demonstrating baseline capabilities. For the initial submission cycle, the FDIC informed it will be conducting a horizontal test of capabilities to populate a portion of a VDR that is hosted and run by the FDIC. Elements like identified strategy and asset valuation are most likely not in scope.
Documentation	Extensive documentation, including comprehensive test plans, scenario setup and rationale, step-by-step execution logs and real-time records, decision records, outcome measurement and validation (e.g., thorough capture and analysis of results for each scenario, KRI tracking and remediation timelines), and evidence attachments (e.g., logs, screenshots, email threads, copies of notifications).	Documentation should include detailed testing plans and test outputs, including summary of test objectives, scenario description, test execution records (e.g., test date, duration, participants), results and findings, decision records, and resulting remediation actions.
Regulatory scrutiny	Higher level of regulatory scrutiny with more thorough and frequent reviews and engagement, including detailed review of documentation and evidence of testing that demonstrates capabilities. This will then likely be compared against other similar-size institutions to determine the overall levels of acceptability.	Moderate level of regulatory scrutiny with more event-driven regulatory assessments, consisting of documentation review of base-level capabilities and a comparison for consistency with similar-size institutions.

Preparing for capabilities testing

Banks should keep the following in mind when preparing for capabilities testing:

- **Start early and build momentum:** Early planning enables iterative testing and timely remediation of gaps. Develop a detailed framework that defines scope, roles and responsibilities, test frequency, and escalation protocols, reflecting regulatory expectations for Group A and Group B institutions. Establish a multi-year testing calendar.
- **Ensure stakeholder engagement:** Stakeholders across the three lines model should be engaged, with the first line playing a key role by executing testing activities, providing direct operational insights, and ensuring that risk controls are implemented effectively in day-to-day processes. The second line supports by providing independent review and oversight throughout the testing cycle, while the third line provides independent assurance through audit activities and validation of the overall program. Resolution planning teams are at the center, facilitating collaboration across enterprise stakeholders (e.g., process owners, data, legal, procurement, human resources, technology) and driving day-to-day governance, underlying analysis, data collection, and creation of plan content as well as resolution capabilities testing.
- **Invest in playbooks:** Clear, actionable playbooks accelerate response time and support compliance evidence. Test documentation should demonstrate repeatability, transparency, and clear linkage to the plan's critical capabilities. Group A banks should pursue more comprehensive, frequent, and granular testing, including simulations and production tests. Group B banks may focus on targeted, scenario-based tabletop exercises but must still demonstrate core capabilities.
- **Promote a continuous improvement mindset:** Use every test and resulting findings as a chance to strengthen not just compliance, but also overall resilience. Establish prompt issue tracking, escalation paths, and tracking of resulting action items through a robust remediation framework.

Effective preparation for capabilities testing is foundational to a credible resolution plan under both IDI and 165(d) Title I requirements. Successful programs are marked by strong governance, prioritized and scenario-based testing, and continuous improvement frameworks. Equally essential is the establishment of a comprehensive assurance framework through robust risk and control methodologies to ensure reliability of data and systems used in resolution planning.

Group A institutions should invest more heavily and demonstrate greater rigor, but the expectations extend to all covered institutions based on their size, complexity, and other relevant factors. A proactive, enterprise-wide approach can reduce the risk of regulatory shortfalls and enhance institutional resilience during a crisis.

Endnotes

1. Federal Deposit Insurance Corporation (FDIC), "IDI Resolution Planning Rule Frequently Asked Questions (FAQs)," last updated August 15, 2025.

2. FDIC, "Resolution readiness and lessons learned from recent large bank failures," speech by Acting Chairman Travis Hill at Single Resolution Mechanism's 10th Anniversary Conference, October 15, 2025.

3. The FDIC's resolution planning requirements categorize institutions into two groups: Group A (CIDIs with $100 billion or more in total assets) and Group B (CIDIs with $50 billion to $100 billion in total assets). Group A includes biennial filers (GSIB IDIs) as well as triennial filers (non-GSIB IDIs), while Group B institutions are triennial filers. Moreover, the FED's Enhanced Prudential Standards (Regulation YY) categorize banks into four categories based on their risk profile (Categories I, II, III, and IV). This categorization determines the level of required capital and liquidity to ensure banks can withstand stress and maintain stability during crises. See 12 CFR § 360.10.

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