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Mid- to large-size banks expect greater scrutiny on their upcoming resolution plans

Banks are likely to face heightened challenges in their next resolution plan submission cycles due to recent market events, return to full plan scope in this cycle, and upcoming guidance on the horizon

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Center *for* **Regulatory Strategy** **US**

Recent market events and conditions have required banks to assess their recovery and resolution preparedness

By March 2023, the US economy experienced a shock to the banking industry as a result of multiple bank failures, primarily driven by substantial liquidity and interest rate risk management weaknesses. These failures have raised questions on the health of the US banking system given the speed at which the recent events took place. Have challenges related to banks deemed as "too big to fail" really been addressed? Are the existing regulatory frameworks keeping pace with the risks posed by large regional banks? In the absence of stronger resolution and recovery planning requirements for large regional banks, regulators believe failures are highly likely to pose substantial risks to the banking system and potentially further erode a loss of trust in the US banking system.

Banks can anticipate increased regulatory scrutiny and focus across a range of financial risk management and supervisory topics. We expect resolution and recovery planning to come into significant focus.

One of the tools used by regulators to increase confidence in the financial system is the Resolution Plan Requirement as part of Section 165(d) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (DFA), created in response to lessons learned from the 2008 financial crisis. The Federal Reserve Board of Governors (FRB) and the Federal Deposit Insurance Corporation (FDIC) are the primary regulatory bodies in the US for resolution-related events and corresponding supervisory approaches. The recent events reinforce the expectation that the FRB and FDIC will challenge the scenarios, assumptions, data, and capabilities outlined in each forthcoming plan submission at a greater level of detail than in the past.

Although the US congress and banking regulatory agencies are actively taking measures to address current events, banks are asked to identify such situations in advance and prepare accordingly via their recovery and resolution plans. The framework is staggered where customized early-warning indicators and recovery triggers should address idiosyncratic factors (such as the bank's own capital and liquidity levels) as well as market factors (like changes in interest rates) to alert management of a stress situation that may require corrective countermeasures.

Ultimately, for situations where failure is inevitable, the bank's resolution plan provides strategies for an orderly wind down that would have the least costly impact on the broader US economy. With that in mind, the onus remains on the banks to demonstrate preparedness and resiliency against macroeconomic and idiosyncratic events, and avoiding contagion across the banking sector.

Biennial and triennial full filers should be preparing for their full resolution plans in 2023 and 2024

US and foreign banks that file resolution plans with the FRB and FDIC should already be preparing for their upcoming plan submission.[2] However, banks should consider lessons learned from recent bank failures and anticipate additional focus on areas like testing capabilities. The date for each upcoming submission varies by institution type, as shown in Figure 1. Resolution plans can take several months to prepare given the complexity and dependencies of the preparation process. Biennial filers and triennial full filers should consider the factors unique to this round of submissions, which may require more time, resources, and attention to prepare a credible plan, such as (1) the effect of new capital requirements; (2) describing the bank's experience of handling stress events since its last filing given changes to business and operating models; and (3) institution and supervisory staff turnover.

Upcoming resolution plan submissions for domestic and foreign banks

In October 2019, the FRB and FDIC revised their resolution plan filing groups for domestic and foreign bank organizations (FBOs) based on asset size and operational complexity to align them with the four categories of tailoring standards resulting from the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA).[3] The three filing groups were mapped to the FRB's tailoring standards.

The resolution planning groups include (1) Biennial filers, Category I banks, that alternate full plans and targeted plans every two years; (2) Triennial full filers, Category II and III banks, that alternate full plans and targeted plans every three years; and (3) Triennial reduced filers and other FBOs that produce reduced plans every three years. The applicability and high-level requirements for each filing group are listed in Figure 1.

Figure 1. Resolution planning filing groups

Filing groups	Category	Applicability	Resolution plan requirements

Biennial Filers	**Category I**	US firms identified:
		(1) as global systemically important BHC
		(2) nonbank financial companies supervised by the FRB
			• Two-year cycle (consistent with current *de facto* filing rate for US G-SIBs)
			• Alternating full and targeted plans to reflect the complexity and global operations
			• *Next submission*:
			  • July 1, 2023 (full plan)
			  • July 1, 2025 (targeted plan)

Triennial Full Filers	**Category II**	(1) US firms with (a) ≥ \$700b average[1] total consolidated assets; or (b) ≥ \$100b average total consolidated assets with ≥ \$75b in average cross-jurisdictional activity
		(2) FBOs with (a) ≥ \$700b average combined U.S. assets; or (b) ≥ \$100b average combined U.S. assets with ≥ \$75b in average cross-jurisdictional activity
			• Three-year cycle
			• Alternating full and targeted plans
			• Targeted plans to include core areas including capital and liquidity, as well as material changes in other areas
			• *Next submission*:
			  • July 1, 2024 (full plan)
			  • July 1, 2027 (targeted plan)

	Category III	(1) US firms with (a) ≥ \$250b and < \$700b average total consolidated assets; or (b) ≥ \$100b average total consolidated assets with ≥ \$75b in nonbank assets, weighted short-term wholesale funding (wSTWF), or off-balance sheet exposure (2) FBOs with (a) ≥ \$250b and < \$700b average combined US assets; or (b) ≥ \$100b average combined US assets with ≥ \$75b in nonbank assets, wSTWF, or off-balance sheet exposure.	
Triennial Reduced Filers	**Other FBOs**	FBOs with ≥\$250b global consolidated assets that are not subject to Category II or Category III standards	• Three-year cycle • Reduced plans • Domestic firms that fall under this category would not be required to file a resolution plan • *Next Submission:* July 1, 2025

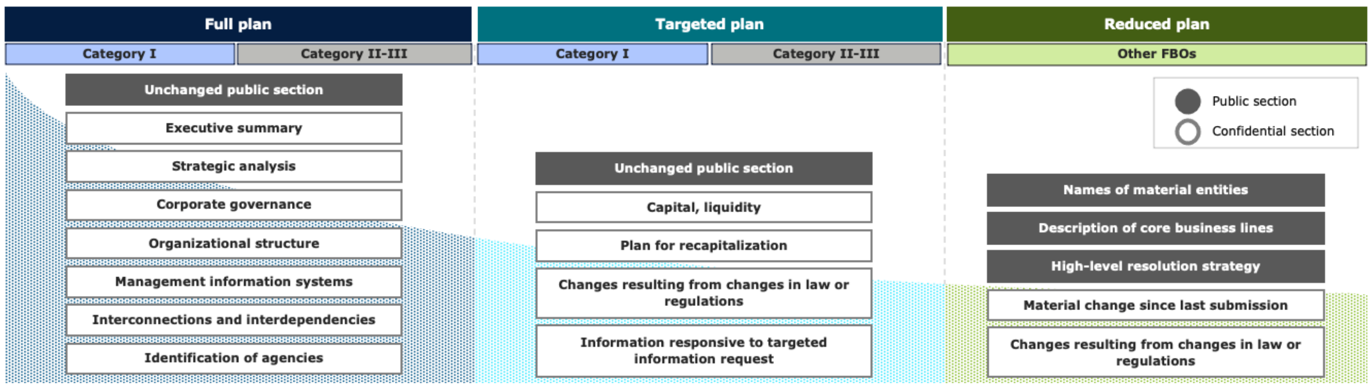
[1] Average total consolidated assets is measured by the average over the preceding four calendar quarters as reported on the FR Y-7Q

Each filing group, by category, has unique content and timing requirements for its resolution plan submissions. Based on the current cycles, the three groups are expected to file by the following deadlines:

- **Biennial filers:** Full plan submissions due July 1, 2023.
- **Triennial full filers:** Full plan submissions due July 1, 2024.
- **Triennial reduced filers:** Reduced plan due July 1, 2025.

The timeline in Figure 2 depicts the upcoming cycles of resolution planning submissions by filing group and the expected content by plan type.

Figure 2. Timeline requirements by filing group



Filing group See next slide for list of banks	Most Recent Filing	2023	2024	2025	2026	2027	2028	2029
Category I: US G-SIBs	Targeted Plan Jul 1, 2021	Full plan July 1, 2023		Targeted plan July 1, 2025		Full plan July 1, 2027		Targeted plan July 1, 2029
Category II: US firms and FBOs with ≥ $700b total consolidated assets	Targeted Plan Dec 17, 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 Dec 17, 2021		Full plan July 1, 2024			Targeted plan July 1, 2027		
Other FBOs: FBOs with ≥$250b global consolidated assets	Reduced Plan Jul 1, 2022			Reduced plan July 1, 2025			Reduced plan July 1, 2028	

Key considerations for upcoming full plans (biennial and triennial full filers)

While the feedback on the targeted and reduced plans has been largely positive, firms should not be caught off guard in their next submissions, which will be based on the full plan and cover a significantly broader scope than targeted plans in previous rounds. In light of current market events, we expect regulators to take another look at stress events, scenarios, modeling, and potential impacts as they view these anticipated submissions.

Testing and assumptions will be critical for demonstrating the credibility of a bank's resolution plan

Banks should expect greater focus from regulators regarding their liquidity risk management capabilities, in particular the tracking of uninsured deposit balances and portfolio risk. Assumptions used in banks' liquidity stress tests will likely need to be adjusted to better capture the risk attributes of deposit funding sources and the timing needed to implement contingency funding plans. Banks may subsequently experience a waterfall impact from changes in the underlying liquidity assumptions applied to the broader resolution plan. Banks should also expect additional consideration on how their balance sheet management and considerations support their preferred resolution strategy. In previous submissions, regulators have identified shortcomings and deficiencies due to inadequate or incomplete resolution capabilities or lack of ability to operationalize them in a timely and/or repeatable manner. Now that banks have improved on capability operationalization, the agencies are expected to focus stronger on the outputs and assumptions through various types of testing.

Banks should expect to incorporate independent testing of their resolution capabilities in their regular operations to proactively identify and remediate issues. Independent testing should incorporate:

- Tabletop exercises of the controls and procedures ensuring that this information is provided in a timely manner to the appropriate decision-makers and stakeholders;

- Testing of resolution-related data and management information systems (MIS) to confirm the information produced is accurate and ties back to the source system of record;

- Testing of key controls for corrective actions and remediated items;

- Front-to-back audit of testing procedures, assumptions, sampling methodology, and overall data accuracy; and

- Identification of manual and automated capabilities with appropriate testing for both.

In addition to the expected independent testing, banks can anticipate elevated requirements related to scenario analysis and challenger models contingent on specific stress factors changing. Finally, these financial institutions must be prepared to substantiate their staff readiness for increased regulatory and testing requirements.

TLAC requirements in some form may soon apply to Category II and III banks as well

Currently, the total loss absorbing capacity (TLAC)[4] requirements only apply to the global systemically important banks (G-SIBs). However, the agencies have issued an Advanced Notice of Proposed Rulemaking (ANPR) to enhance regulators' ability to resolve large banks in an orderly way should they fail, which could impose a similar requirement on the Category II and III banks if a final rule were to be issued. For the Category II and III banks, the guidance for their upcoming full plan submission is expected to be provided in the next few months. Among the items on the radar in the next couple of years for Category II and III banks is understanding what requirements will be expected as they relate to TLAC.

Implementation of the finalized proposal to enhance regulators' ability to resolve large banks in an orderly way should they fail could be delayed if the contents of the final rule are materially different from the proposed requirements outlined in the ANPR. The public comment period ended on January 23, 2023. Mergers of large regional banks, which we have seen in recent years, may be affected by the focus in this area. If adopted, there is a possibility that conditions addressing resolvability and similar matters, including TLAC, will be added to large bank merger approvals.

Category II and III banks must be aware of the potential implications if regulatory authorities impose TLAC as a regulatory requirement.[5] If implemented, TLAC requirements could limit flexibility for these banks in their resolution planning and daily operations. The cost of TLAC will likely increase going forward and could negate the benefit of the low interest rate environment. Of note is the potential for increased costs overall of holding TLAC if it is being used to replace deposit funding. The following are two areas that a potential new TLAC requirement could affect banks:

- ***Reduced flexibility on balance sheet*** will affect how banks monitor and employ contingent debt plans according to the rates environment and risk premium for debt. Banks also need to be aware of debt approaching maturity as the economic environment changes.

- ***Banks with multiple point of entry (MPOE) strategies*** will need to determine where the debt will be held.

Category II and III banks must submit full plans by July 1, 2024; however, it is vital that these organizations commence reviewing how the potential requirements may impact their preferred resolution strategy and processes to monitor and report on levels of debt held. Based on the recent market events for certain financial institutions, regulatory authorities may request additional information from Category II and III banks and FBOs regarding their capabilities to meet TLAC requirements. These financial institutions should proactively address TLAC requirements to ensure they are prepared for increased scrutiny.

Stress events and staff turnover

Since the most recent full plan submission in 2019, many banks have experienced stress events that triggered parts of their recovery or resolution plans. The agencies have previously issued targeted information requests as part of the 2021 submissions on how recovery and resolution capabilities performed during stress. There will continue to be increased expectations for articulating lessons learned and enhancements to capabilities.

In recent years, many banks have also experienced higher-than-normal staff turnover, and in some respects, staff aligned to resolution plan activities have worn multiple hats while performing other functions.[6] There may be a higher risk that banks have failed to retain staff in the same roles with institutional knowledge of the firms' resolution capabilities from previous submissions. To mitigate the risk of resolution plans needing further revisions, banks should account for additional time and resources to fulfill resolution planning requirements ahead of the next submissions.

For G-SIBs and Category II and III banks, there are several considerations to be addressed in their next submissions:

- ***Demonstrating integrated accountability*** across the first and second lines instead of responsibility being passed to a dedicated resolution plan submission team.

- ***Analyzing separability options*** that could be available at the time of resolution.

- ***Focusing on testing and validation*** of resolution planning capabilities.

Banks of all sizes can proactively prepare for future submissions by implementing controls that address these considerations. Directed accountability, along with proper testing and validation, can help alleviate pressure by aligning responsibility with the individuals and functional groups that engage in the daily activities.

These measures can help to mitigate future shortcomings and deficiencies in resolution plans.

Figure 3. Resolution plan submission requirements

Full plan requirements	Requirements recently addressed in targeted plans	Requirements to be addressed only in full plans	Potential pain points
Executive summary	• N/A	• Describe key elements of strategic plan during resolution • Describe material changes to firm, since last plan, including changes by law, guidance, or feedback • Describe actions taken to improve effectiveness of plan or address weaknesses identified in the past	• Sufficient time needs to be allotted into the submission planning schedule for review by management and the board with longer plan submission • Clear ownership of the Executive Summary chapter is needed to align to the rest of the plan's chapters
Strategic analysis	• Describe plan for resolution, including assumptions and supporting analysis, range of actions to be taken by firm, funding, liquidity, and capital needs • Describe the strategy for maintaining operations of and funding for material entities (MEs) and strategy in the event of discontinuation of a ME from impacting the remainder of the firm • Identify timing to execute resolution, potential impediments, and actions to mitigate any impediments to resolution • Describe the process to determine market values and marketability of core business lines and critical operations for assessing the feasibility of a sale or divesture and impact of any sales or divestures	• N/A	• Liquidity stress assumptions likely need to be revised based on recent events, which could impact business-as-usual (BAU) liquidity strategies and approach • Recent changes to core business lines (CBLs) and MEs may lead to a change in the bank's preferred resolution strategy • Changes in market conditions since the last filing may have an impact on the feasibility of resolution actions, including sale or di-vestures of CBLs • Changes in expectations regarding liquidity assumptions and stress impact on execu-tion timing • Potential need for more support regarding how assumptions are formed, challenged, and impacted by market events • Changes in jurisdictional requirements, especially for FBOs and non-US MEs may create additional barriers in resolution
Corporate governance	• Describe how resolution planning is incorporated in the firm's corporate governance structure, including any responsible officials and nature, ex-tent, and frequency of reporting for the plan	• Describe the firm's policies, proce-dures, and internal controls gov-erning the preparation and ap-proval of the resolution plan • Describe the nature, extent, and results of any contingency planning exercise • Identify any risk measures used to report credit risk exposures inter-nally and externally	• Additional responsibilities for resolution planning staff and higher turnover with loss of key persons in recent years may re-sult in longer timelines to prepare a plan submission • Documentation of senior management involvement resolution-related activities and resolution considerations in business-as-usual (BAU) decisions

Full plan requirements	Requirements recently addressed in targeted plans	Requirements to be addressed only in full plans	Potential pain points
Organizational structure	• Provide a mapping of critical opera-tions (COs) and CBLs to MEs • Provide an unconsolidated balance sheet for firm and consolidated schedule for MEs • Describe material components of the liabilities and off-balance-sheet ex-posures	• Provide a hierarchal list of MEs and associated information (e.g., equity ownership, jurisdiction of incorporation) • Identify the process to determine pledged collateral	• Review of each CO, CBL, and ME by leader-ship will require significant time and coor-dination and should be documented from the start • Inconsistencies across other regulatory reports may raise questions around the in-tegrity of the data provided
Management in-formation systems (MIS)	• Provide description and analysis of MIS capabilities to collect, maintain, and report in a timely manner and address any gaps in the reporting process	• Update inventory of key MIS, mapped to MEs, COs, and CBLs • Update inventory of MIS reports used by senior management • Describe the process for supervisory authorities to access MIS during a resolution	• Updates to MIS and processes to govern information will need to be addressed • Ownership of key reports will need to be confirmed prior to submission • Timing needed to produce reports should be confirmed
Interconnectedness and interdependencies	• Identify and map interconnections and interdependencies among COs, CBLs, and MEs that would materially affect resolution for personnel, facili-ties, systems, capital, funding, or li-quidity arrangements; existing or contingent credit exposures; cross-guarantee agreements; cross-collateral agreements; cross-default provisions; cross-affiliate netting agreements; risk transfers; and ser-vice level agreements	• N/A	• Taxonomy changes and identification of new CBLs, COs, and MEs will need to be the first step addressed to map critical services • Ex ante plans will need to be created for newly identified resolution risks as a result of the critical services mapping • High staff turnover in recent years means the critical services mapping process may not be familiar to many stakeholders
Supervisory and regulatory information	• N/A	• Identify any federal, state, or foreign agencies/authorities with supervisory authority or responsi-bility for ensuring the financial safety and soundness of the firm and its MEs, COs, and CBLs • Identify any foreign authority responsible for resolving any for-eign-based MEs	• Gathering of supervisory and regulatory information may require coordination across regions and involve new staff

Prudently plan for the full plan submission

G-SIBs and Category II and III banks should not assume that their most recent project plans can be adequately recycled to address the future needs of a full plan submission. The additional scope of the full plan, time elapsed since the full plan-specific requirements were addressed, staff turnover, and heightened regulatory expectations mean that firms will need more time and resources to develop their next submissions. Additionally, Category II and III banks will need to consider how they will address potential TLAC and separability requirements based on their current and future structure.

Endnotes

1. Federal Deposit Insurance Corporation (FDIC), *FDIC Quarterly Banking Profile* 17, no. 1 (2023).

2. Deloitte, "FBO resolution plan actions and FBO guidance—FDIC & FRB," December 2020; Deloitte, "Agencies are expecting banks to offer coronavirus response outcomes and lessons learned in their next round of resolution plans," 2020.

3. Economic Growth, Regulatory Relief, and Consumer Protection Act, P.L. No. 115-174, 115th Cong. (2017–2018).

4. Board of Governors of the Federal Reserve System (FRB), "Federal Reserve Board invites public comment on an advance notice of proposed rulemaking to enhance regulators' ability to resolve large banks in an orderly way should they fail," press release, October 14, 2022.

5. Deloitte, "Speeding up: What risk, compliance, and legal leaders can do to accelerate regulatory approval of bank mergers," 2022; Deloitte, "Federal Reserve proposes extensive updates to its Complex Liquidity Monitoring Report (FR 2052a)," 2021.

6. Tom Grottke, Stephanie White, and Dana Lori, "2022 Crowe bank compensation and benefits survey highlights," Crowe, September 2, 2022.

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