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Statement by Martin J. Gruenberg, Chairman, Federal Deposit Insurance Corporation on Title 1 Resolution Plan Feedback Letters for 8 U.S. GSIBs

June 21, 2024

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The FDIC Board is today considering the 2023 resolution plan submissions of the eight U.S. global systemically important banks (GSIBs). Our actions, in conjunction with the Federal Reserve, continue the agencies' efforts to make meaningful progress on the resolvability of GSIBs.

In 2010, in the aftermath of the 2008 financial crisis, the Dodd–Frank Wall Street Reform and Consumer Protection Act¹ was adopted, in large part, to promote the financial stability of the United States, and make possible the orderly failure of systemically important financial institutions without taxpayer support. Consistent with those goals, the Dodd–Frank Act established a statutory requirement for certain companies, including the GSIBs, to develop plans for their rapid and orderly resolution in the event of material financial distress or failure.²

The largest banks submitted their first Dodd–Frank resolution plans in 2012. Since then, the agencies have provided general industry guidance and several rounds of individualized feedback. The submissions in July 2023 represent the ninth resolution plan submissions by the GSIBs.

The statutory standard of review is whether a plan is not credible or would not facilitate an orderly resolution of the firm under the Bankruptcy Code. The FDIC and Federal Reserve collaborated in analyzing these plan submissions with work teams consisting of staff from both agencies, and the agencies have agreed on the facts arising from the analyses of these eight plans.

However, FDIC staff have concluded that the weaknesses for one firm – Citigroup, Inc. – are of such magnitude that the plan is not credible or would not facilitate an orderly resolution

under bankruptcy and, therefore, constitute a deficiency. However, the Federal Reserve, if it adopts the recommendation of Federal Reserve staff, will determine the weaknesses to be a shortcoming.

More specifically, during the review of the 2023 plans, the agencies requested that six of the GSIBs that have sizeable derivatives portfolios simulate the unwinding of their derivatives and trading positions in resolution. The performance of Citigroup's resolution forecasting tools and systems demonstrated that the firm lacks the capability to incorporate updated stress scenarios and assumptions, and that ongoing weaknesses regarding data reliability and the firm's control environment contributed to materially inaccurate calculations of the resources required to execute its preferred resolution strategy. This weakness could undermine the feasibility of the company's resolution plan and requires urgent attention by the firm's senior management and board of directors. I therefore support the recommendation of FDIC staff for a deficiency determination.

For three firms – Bank of America Corporation, The Goldman Sachs Group, Inc., and JPMorgan Chase and Co. – the agencies jointly found shortcomings pertaining to the implementation of their derivatives unwind strategies. Each of these companies demonstrated weaknesses in their ability to unwind their derivatives and trading portfolios that raise questions about these firms' abilities to implement their preferred resolution strategies.

For the remaining four firms – The Bank of New York Mellon Corporation, Morgan Stanley, State Street Corporation, and Wells Fargo and Company – the agencies are providing feedback to guide improvements to future plans.

Since the initial plan submissions in 2012, the firms have matured their strategies and, through the guidance and feedback provided by the agencies, taken several important actions necessary for their strategies to work. For example, firms have simplified their organizational structures, created clean holding companies, and issued long-term debt to absorb losses. They have agreed to adhere to the International Swaps and Derivatives Association (ISDA) 2018 Universal Resolution Stay Protocol to help mitigate certain contagion effects by providing for temporary stays against foreclosures associated with QFC termination rights. They have modified service contracts to help maintain the continuity of key services. And they have implemented internal escalation triggers, playbooks, and other governance mechanisms intended to facilitate the timely execution of important resolution actions. In short, the Dodd-Frank resolution planning process has provided, and continues to provide, meaningful results in helping protect American taxpayers from risks presented by the failure of systemically important financial institutions.

However, firms must have not only well-developed written plans and playbooks that outline their general strategies for achieving a rapid and orderly resolution, but also the operational capabilities to execute their resolution strategies. The letters adopted today

specifically address certain weaknesses in operational capabilities and emphasize the importance of each firm having an appropriate assurance framework, of which internal testing is a key part, to ensure the company is ready and capable of implementing its plan.

In future plan analysis cycles, the agencies expect to expand their evaluation of Dodd-Frank resolution plan submissions with more granular reviews of firms' internal testing results. I expect the agencies also will continue to conduct their own independent capabilities assessments.

Ensuring that covered companies can be resolved in a rapid and orderly manner without the need for extraordinary government support or placing taxpayer funds at risk is a top priority for the FDIC, and this is reflected in the findings of this review. The letters sent by the agencies provide direct feedback to the eight U.S. GSIBs about the agencies' expectations and are another significant step toward enhancing the firms' compliance with the statutory mandate. I support their issuance and would like to thank FDIC and Federal Reserve staff for their thoughtful and collaborative work on these important issues.

¹ P.L. 111-203, 124 Stat. 1376 (July 21, 2010).

² 12 USC 5365(d).

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