Resolution Plan Assessment Framework and Firm Determinations (2016)

Board of Governors of the Federal Reserve System

Federal Deposit Insurance Corporation

Washington, D.C. • April 13, 2016

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Background on Resolution Planning

During the recent financial crisis, large financial institutions were unprepared to be resolved under the U.S. Bankruptcy Code. As demonstrated by Lehman Brothers, firms had not been required, nor seen the need, to take specific actions to prepare themselves for resolution under bankruptcy. This lack of preparedness contributed to the disruption that the failure of Lehman ultimately generated. Under these conditions, there were limited options for managing the failure of one of these firms—either allow an unprepared firm to go through bankruptcy or provide government support for that firm.

Section 165(d) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) complements ongoing initiatives implemented by the federal banking agencies to increase the resiliency of large financial institutions, including significant increases to their capital and liquidity levels, by requiring the largest bank holding companies[1] and nonbank financial companies designated by the Financial Stability Oversight Council, to prepare resolution plans, also known as living wills, for their rapid and orderly resolution in the event of material financial distress. This process is designed to foster resolution planning and enables agencies to assess whether a firm could be resolved under bankruptcy without severe adverse consequences for the financial system or the U.S. economy.

Each firm subject to the resolution plan process must submit its plan for rapid and orderly resolution under bankruptcy in the event of its material financial distress or failure. These plans are reviewed by the Federal Reserve Board (Board) and the Federal Deposit Insurance Corporation (FDIC). Following their review, the Board and the FDIC may jointly determine that a plan is not credible or would not facilitate an orderly resolution of the company under the U.S. Bankruptcy Code ("joint determination"). If there is a joint determination, the agencies must notify the firm of the deficiencies in the plan jointly identified by the agencies. Firms must remedy their jointly identified deficiencies by October 1, 2016.

If both agencies agree that a firm has not adequately remediated the deficiencies, the agencies, acting jointly, may impose more stringent prudential requirements on the firm until it remediates them. The prudential requirements may include more stringent capital, leverage, or liquidity requirements, as well as restrictions on growth, activities, or operations of the firm, or any subsidiary thereof. If, following a two-year period beginning on the date of the imposition of such requirements, a firm still has failed to adequately remediate that deficiency, the agencies, in consultation with the Financial Stability Oversight Council, may jointly require the firm to divest certain assets or operations.

A plan is deemed to continue to have joint deficiencies unless one or both agencies determine that the firm has remediated the deficiencies.

Plans may have other weaknesses that are identified by both agencies but are not considered deficiencies; these weaknesses are referred to as shortcomings. Shortcomings must be remediated by the next full submission of firms' resolution plans on July 1, 2017.

[1] The term bank holding companies as used herein includes foreign banks or companies that are bank holding companies or are treated as bank holding companies for U.S. regulatory purposes with $50 billion or more in total consolidated assets.

Agencies' Determinations and Required Actions

Bank of America, Bank of New York Mellon, JPMorgan Chase, State Street, Wells Fargo

The agencies have made joint determinations for each of the 2015 plans of Bank of America, Bank of New York Mellon, JP Morgan Chase, State Street, and Wells Fargo. The agencies have issued letters to these five firms detailing the deficiencies in their plans and the actions the firms must take to address them, as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act and the agencies' rule. The specific deficiencies and required remediation for each firm are summarized in appendix A. The nature, rather than the number, of deficiencies identified in a firm's plan reflects the extent of the required remediation.

Each firm must remediate its deficiencies by October 1, 2016, as specified in the letters. The firms must provide a targeted submission addressing their deficiencies by that date. The agencies will review each submission and consider whether the firm has adequately remediated its deficiencies.

With the exception of Wells Fargo, these firms also have shortcomings, which must be addressed by the submission of their July 2017 resolution plans.

Goldman Sachs, Morgan Stanley

The agencies jointly identified weaknesses with regard to the 2015 plans of Goldman Sachs and Morgan Stanley, but did not make joint determinations regarding the plans and their deficiencies. The FDIC found that the plan submitted by Goldman Sachs was not credible or would not facilitate an orderly resolution under the U.S. Bankruptcy Code and identified deficiencies. The Board identified a deficiency in Morgan Stanley's plan and found that the plan was not credible or would not facilitate an orderly resolution under the U.S. Bankruptcy Code. Because the agencies did not make joint findings regarding the plans and their deficiencies, the identified weaknesses constitute shortcomings required to be addressed in their July 2017 resolution plans.

Citigroup

The agencies jointly identified shortcomings, however, neither agency identified deficiencies with regard to Citigroup's 2015 plan. The shortcomings must be addressed in the firm's July 2017 plan.

Expectations for July 1, 2017

All of the firms are required to submit their next full resolution plans by July 1, 2017. In their 2017 plans, firms will be required to address all identified shortcomings, follow all guidance provided by the agencies, and meet the statutory and regulatory requirements for their resolution plans. In meeting these expectations, the actions that firms need to take should be substantially complete by July 2017, as previously communicated by the agencies.

Objectives of the Resolution Planning Process

The goal of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) resolution planning process is to help ensure that a firm's failure would not have serious adverse effects on financial stability in the United States. The Dodd-Frank Act requires the Federal Reserve Board and the Federal Deposit Insurance Corporation to review resolution plans. If the agencies jointly determine that a company's plan is not credible or would not facilitate orderly resolution under the U.S. Bankruptcy Code, the firm must take steps to remedy the specific deficiencies in its plan as jointly identified by the agencies.

Specifically, the resolution planning process requires firms to demonstrate that they have adequately assessed the challenges that their structure and business activities pose to resolution and that they have taken action to address those issues. They must also confront the resolution consequences of their day-to-day management decisions on a continual basis, particularly those related to structure, business activities, capital and liquidity allocation, and governance. Firms are also expected to create a meaningful set of options for selling operations and business lines to generate resources and to allow for restructuring under stress, including through the sale or wind-down of discrete businesses that could further minimize the direct impact of distress or failure on the broader financial system.

The resolution planning process does not focus narrowly on simplistic measures such as size or business type. Nor is it focused on a single solution for all firms. Instead, it is a company-specific process that requires firms to confront the details of their potential resolution in advance. The process works largely by requiring firms to make resolution planning an ongoing institutional aim. The development of resolution plans compels firms to rationalize their structures, create resolution strategies and mechanisms for their successful implementation, identify and marshal necessary resources, and consider resolvability as part of day-to-day decisionmaking. While these measures cannot guarantee that a firm's resolution would be simple or smoothly executed, the preparations can help ensure that the firm could be resolved under bankruptcy without government support or imperiling the broader financial system. The agencies' assessment of each firm's plan and the subsequent feedback and guidance are intended to facilitate development of the firm's plan. However, the responsibility for assessing the challenges to an orderly resolution presented by its unique operations and structure, and for developing a plan that would facilitate rapid and orderly resolution under bankruptcy, remains with the firm itself.

Progress to Date

Important changes have been made to the structure and operations of the largest financial firms, which may improve resolvability. In particular:

- Each of the firms, including affiliates, has adhered to the International Swaps and Derivatives Association (ISDA) 2015 Universal Resolution Stay Protocol. The protocol is intended to provide for temporary stays on certain default and early termination rights within ISDA and other standard derivatives contracts.[2] The temporary stays may mitigate certain contagion effects that were seen during the financial crisis.
- Many of the firms maintain substantial amounts of long-term debt issued from their holding companies that could potentially be used to absorb losses following entry into bankruptcy proceedings. The Board has issued a proposed regulation requiring firms to maintain sufficient amounts of long-term debt, which would provide a source of private capital, to support the firms' critical operations during resolution.[3]
- Many firms have taken steps to ensure that intercompany services shared by multiple affiliates will continue to be available to those affiliates in resolution. This will reduce the potential that failure of one subsidiary within a firm will disrupt the operations of its affiliates and will enhance the ability to separate affiliates within a firm for resolution.
- Many firms have modified their service contracts with key vendors to provide for the continuation of services as long as the firm continues to perform its obligations under the terms of the contract.
- Many firms have developed proposals to further rationalize their legal entity structure and some have taken steps to develop options for the sale of discrete businesses under different market conditions, which will increase the flexibility of the firm during resolution.
- Firms have enhanced their capability to monitor and track liquidity needs under normal and stressed conditions at both the consolidated and material entity level.

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2 For more information, see the press release on the Board's public website: www.federalreserve.gov/newsevents/press/bcreg/20141011a.htm and on the FDIC's public website: www.fdic.gov/news/news/press/2014/pr14083.html.

3 For more information, see the press release on the Board's public website: www.federalreserve.gov/newsevents/press/bcreg/20151030a.htm.

2015 Resolution Plan Evaluation

Although each resolution plan is independently reviewed by the Federal Reserve Board (Board) and the Federal Deposit Insurance Corporation, the agencies closely coordinate to ensure consistency of treatment in the review process.

The agencies established independent and consistent processes for reviewing resolution plans and coordinated with each other throughout the review process. Both agencies established firm-specific (vertical) and issue-specific (horizontal) review teams to assess the plans and issues, as well as oversight teams to ensure consistent reviews across the plans within each agency. The factual findings and identified issues were further reconciled across both agencies, and joint letters were prepared. The agencies' processes have also been reviewed by the U.S. Government Accountability Office.[4]

The agencies' 2015 reviews focused on evaluating the preferred strategy presented by each firm. A successful resolution strategy must substantially mitigate severe adverse effects on financial stability. To demonstrate that a strategy meets this objective, assumptions must be reasonable and supported with detailed information, key obstacles to orderly resolution must be addressed, and the strategy must be executable across a range of failure scenarios and market conditions.

The agencies also evaluated the executability of the firms' resolution plans. In evaluating executability, the agencies assessed whether firms had established mechanisms to provide for key board actions, playbooks for executing their strategies, and management information systems with appropriate capabilities. The agencies also assessed whether the firms have sufficient and readily available capital and liquidity to recapitalize or support all entities needed to execute their plans, including adequate methodologies and supporting analysis. Further, the agencies reviewed the firms' progress in creating options for the sale and wind down of discrete businesses that could provide optionality and flexibility to help facilitate the execution of their plans.

The agencies also considered whether there was demonstrable progress to improve resolvability. This involved considering the specific actions firms had taken to improve resolvability, address previously identified shortcomings, and incorporate rule and guidance elements into the firm's corporate governance structure, ensuring that resolution planning has been made an ongoing institutional aim.

Areas Reviewed

In assessing the 2015 resolution plans, the agencies evaluated a number of areas, and key among them were seven elements:

1. Capital
2. Liquidity
3. Governance mechanisms
4. Operational capabilities
5. Legal entity rationalization
6. Derivatives and trading activities
7. Responsiveness

The importance of these issues is reflected in the updated guidance accompanying the April 2016 joint agency letters to the firms. Each element is described below.

1. **Capital:** Firms must be able to provide sufficient capital to material entities to ensure that they can continue to provide critical services as the firm is resolved. They must demonstrate that such support can be provided without disruption from creditors in bankruptcy so that critical operations can be maintained consistent with their strategy.

[4] U.S. Government Accountability Office (2016), "Resolution Plans: Regulators Have Refined Their Review Processes but Could Improve Transparency and Timeliness," GAO-16-341 report, April 12, www.gao.gov/products/GAO-16-341.

The agencies assessed whether the firm had linked its processes for determining when to file for bankruptcy to its estimates of the resources needed to recapitalize its material entities. In assessing a firm's plan in this area, the agencies evaluated whether the firm had enough resources to recapitalize or support all entities needed to execute its plan under its strategy and scenario, including adequate methodologies and supporting analysis. The agencies also considered how the firm had positioned its capital resources to both provide flexibility and mitigate impediments to recapitalizing the subsidiaries.

2. **Liquidity:** Firms must be able to reliably estimate and meet their liquidity needs prior to, and in, resolution. In this regard, firms must be able to track and measure their liquidity sources and uses at all material entities under normal and stressed conditions. They must also conduct liquidity stress tests that appropriately capture the effect of stresses and impediments to the movement of funds. Holding liquidity in a manner that allows the firm to quickly respond to demands from stakeholders and counterparties, including regulatory authorities in other jurisdictions and financial market utilities, is critical to the execution of the plan. Maintaining sufficient and appropriately positioned liquidity also allows the subsidiaries to continue to operate while the firm is being resolved. In assessing the firms' plans with regard to liquidity, the agencies evaluated whether the companies were able to appropriately forecast the size and location of liquidity needed to execute their resolution plans and whether those forecasts were incorporated into the firms' day-to-day liquidity decisionmaking processes. The agencies also reviewed the current size and positioning of the firms' liquidity resources to assess their adequacy relative to the estimated liquidity needed in resolution under the firm's scenario and strategy. Further, the agencies evaluated whether the firms had linked their process for determining when to file for bankruptcy to the estimate of liquidity needed to execute their preferred resolution strategy.

3. **Governance mechanisms:** Firms must have an adequate governance structure with triggers capable of identifying the onset and escalation of financial stress events in sufficient time to allow them to prepare for resolution, and ensure the timely execution of their preferred resolution strategy. In assessing the firms' governance mechanisms, the agencies evaluated the firms' frameworks for boards of directors' and management oversight over resolution planning and their processes to identify stress, escalate information to board and senior management, and determine when to file for bankruptcy.

4. **Operational capabilities:** Firms must maintain significant operational capabilities and engage in regular contingency planning. Specifically, firms must:

    - Possess fully developed capabilities related to managing, identifying, and valuing the collateral that is received from, and posted to, external parties and its affiliates;
    - Have management information systems that readily produce key data on financial resources and positions on a legal entity basis, and that ensure data integrity and reliability;
    - Develop a clear set of actions to be taken to maintain payment, clearing and settlement activities; and
    - Have a fully actionable plan to ensure the continuity of all of the shared and outsourced services that their operations rely on, particularly those that support critical operations.

5. **Legal entity rationalization:** The agencies assessed whether firms had taken adequate steps to simplify or "rationalize" their legal entity structure to facilitate an orderly resolution. This would include the development of criteria to achieve and maintain a structure that facilitates orderly resolution and protects insured depository institutions. These criteria should be part of the firm's day-to-day decisionmaking process related to structure. In addition, the agencies evaluated whether the firms had developed actionable options to wind down, sell, or transfer discrete operations to facilitate the execution of their resolution plan under a range of failure scenarios and different market conditions.

6. **Derivatives and trading activities:** The trading activities of the major dealer firms can pose particular challenges to an orderly resolution. Some firms submitted a resolution strategy to maintain solvency and wind-down their U.S. and U.K. broker-dealers and associated trading activities, while other firms submitted a plan to shrink their trading activities. The agencies evaluated these strategies by focusing on the completeness and sufficiency of the supporting analyses, in the context of each firm's broader resolution plan and

the impact of its plan on the broader financial system.

7. **Responsiveness:** The agencies expect the firms to take agency guidance into account in developing their future plans. The agencies assessed whether the companies complied with the prior feedback from the agencies in developing their resolution plans.

The Resolution Planning Process to Date

In October 2011, the Federal Reserve Board (Board) and the Federal Deposit Insurance Corporation (FDIC) issued a final rule to implement section 165(d) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).[5] The resolution plan rule established an iterative process mandating that firms submit resolution plans and requiring each plan to describe the company's strategy for rapid and orderly resolution in bankruptcy during times of financial distress.

The rule requires each firm's resolution plan to include a strategic analysis of the plan's components, a description of the range of specific actions the company proposes to take in resolution, and a description of the company's organizational structure, material entities, interconnections and interdependencies, and management information systems. The rule also provides that resolution plans are made up of a confidential section that contains confidential supervisory and proprietary information submitted to the agencies, and a section that the agencies make available to the public. Public sections of resolution plans can be found on the agencies' websites.[6]

Companies subject to the rule were generally divided into three groups: first-wave filers[7] (companies with $250 billion or more in nonbank assets); second-wave filers (companies with nonbank assets between $100 billion and $250 billion); and third-wave filers (all other companies with total consolidated assets of $50 billion or more).

[5] See the agencies' resolution plan final rule (Board: 12 CFR 243; FDIC: 12 CFR 381): www.gpo.gov/fdsys/pkg/FR-2011-11-01/html/2011-27377.htm.

[6] See the public sections of resolution plans submitted to the agencies at www.federalreserve.gov/bankinforeg/resolution-plans.htm and www.fdic.gov/regulations/reform/resplans/.

[7] The first-wave filers for this document are Bank of America, Bank of New York Mellon, Citigroup, Goldman Sachs, JPMorgan Chase, Morgan Stanley, and State Street. Wells Fargo was originally a second-wave filer but, having received guidance that was also provided to the first-wave firms, is now being reviewed as part of the first-wave group.

By statute, the Board and the FDIC each review the resolution plans, and may jointly determine that a plan is not credible or would not facilitate an orderly resolution of the company under the U.S. Bankruptcy Code. If the Board and the FDIC make such a joint determination, they must jointly notify the firm of the plan's deficiencies. After receiving a joint notice of deficiencies, a company must submit a revised resolution plan that addresses the jointly identified deficiencies, and otherwise complies with the requirements of the implementing rule. The implementing rule generally requires that the revised resolution plan explain how the firm has remediated the jointly identified deficiencies including any associated changes to operations or structure the firm proposes to make. As described earlier, the agencies are requiring the firms that received a joint determination for their July 2015 plans to file a targeted submission, not a full resolution plan, by October 1, 2016. That targeted submission will be treated as the revised resolution plan as described in the implementing rule.

If the company fails to submit a revised resolution plan within the required time period or if the Board and the FDIC jointly determine that a revised resolution plan does not adequately remedy the deficiencies, the agencies may jointly determine that the company or its subsidiary shall be subject to more stringent capital, leverage, or liquidity requirements, or restrictions on the growth, activities, or operations of the firm.

These requirements or restrictions can be lifted when the Board and the FDIC jointly determine the company has submitted a revised resolution plan that adequately remedies the deficiencies. If, after two years from the joint imposition of more stringent requirements, a company still has not adequately addressed the joint deficiencies, the Board and the FDIC, in consultation with the Financial Stability Oversight Council, may jointly, by order, direct the company to divest assets or operations.

Overview of Agency Feedback to Firms

The Federal Reserve Board (Board) and the Federal Deposit Insurance Corporation (FDIC) resolution plan rule describes an iterative process aimed at strengthening the resolution planning capabilities of each financial institution. As the process has progressed, the agencies have provided the firms with increasingly detailed guidance and feedback. Ultimately, it is the responsibility of the firms to integrate this guidance and feedback into their day-to-day risk-management decisions on a continual basis.

Recent Guidance and Feedback

The agencies provided detailed guidance to the firms in August 2014 and February 2015 for the development of their 2015 resolution plan submissions. These communications set out the specific issues that the firms were required to address in their July 2015 plans and provided additional guidance for the preparation of the plans. These communications contained general guidance for all firms as well as firm-specific feedback based on the individual structure and situation of each firm. The agencies required each firm to discuss specific actions in their July 2015 plans, which were then reviewed in the agencies' assessment frameworks:

- *Loss absorbing capital and liquidity:* Firms were required to include a description of the firm's methodology for estimating its likely capital and liquidity needs as well as a projection of total loss absorbing capacity and liquidity available to each material entity at the point of resolution and describe how they would address any shortfall between the two. Firms were also required to describe the mechanisms in place or under development to provide those capital and liquidity resources to the material entities where they are needed.
- *Governance mechanisms:* Firms were expected to identify governance mechanisms in place or in development that will ensure execution of the required board of directors' actions at the appropriate time, to include identification of pre-action triggers and existing agreements for such actions.
- *Demonstrating operational capabilities for resolution preparedness, such as the ability to produce reliable information in a timely manner.* Firms were required to demonstrate, on a material entity basis, that they could produce reliable information in a timely manner consistent with the expectations laid out in the Board's Supervision and Regulation Letter 14-1 guidance.[8]
- *Ensuring the continuity of shared services that support critical operations and core business lines throughout the resolution process:* Firms were required to include within their 2015 plans: (i) an actionable implementation plan to ensure the continuity of shared services that support critical operations in resolution, and (ii) an analysis of how these shared services would continue to be provided throughout the resolution process.
- *Establishing a rational and less complex legal structure that would take into account the best alignment of legal entities and business lines to improve the firm's resolvability:* Firms were directed to establish a set of criteria for a rational and less complex legal entity structure that would consider the best alignment of legal entities and business lines to improve resolvability. Each firm was required to evaluate its existing legal entity structure against the criteria and make adjustments as appropriate. The criteria should also have resulted in the identification of options to sell, transfer, or wind-down certain discrete operations during resolution that would be actionable under a variety of scenarios and market conditions, in a manner that does not disrupt the provision of needed services and should not be limited by the firm's preferred strategy.
- *Developing a holding company structure that supports resolvability:* Firms were directed to discuss how their current holding company structure sup-

[8] See Supervision and Regulation Letter 14-1, www.federalreserve.gov/bankinforeg/srletters/SR1401.htm.

ports resolvability or how they are preparing to move toward a top-tier holding company structure that supports resolvability.

- *Amending, on an industry-wide and firm-specific basis, financial contracts to provide for a stay of certain early termination rights of external counterparties triggered by insolvency proceedings:* Firms were directed to amend their contracts or adhere to the International Swaps and Derivatives Association (ISDA) 2015 Universal Resolution Stay Protocol and amend their ISDA Master Agreements in accordance with protocol, and reflect those changes in their 2015 plans.

Improvements to the Public Sections of Resolution Plans

To further improve public understanding of the resolution plans, the agencies required each firm to improve the 2015 public section of its plan to include additional information describing the firm's strategy for resolving itself in a manner that mitigates systemic risk, a high-level explanation of how the firm would look following resolution, and a description of the steps that the firm was taking to improve its ability to be resolved in an orderly manner in bankruptcy. In addition, the agencies notified the firms that the public sections of their plans should include more detail on each material entity, including the type of business conducted, interconnectedness among the entities, and a general indication of the entities' capital and liquidity sources.

Prior Guidance and Feedback

The first resolution plans were filed in July 2012. Prior to this initial submission, FDIC and Federal Reserve System staff jointly identified critical operations for each firm and directed firms to identify their material entities.

The agencies identified a number of significant gaps in the initial resolution plans and subsequently issued guidance in April 2013.[9] The guidance specifically required companies to address and mitigate five key obstacles to resolution:

- Multiple competing insolvencies
- Global cooperation
- Operations and interconnections
- Counterparty actions
- Liquidity and funding

The agencies received the second round of resolution plans in October 2013 and issued joint letters with feedback to each of the firms in August 2014.[10] While the agencies noted improvements in the 2013 plans, they also identified specific shortcomings and told the firms that significant progress would be expected in their 2015 submissions. The agencies identified several common shortcomings in the firms' plans. These included assumptions that the agencies regarded as unrealistic or inadequately supported, such as the likely behavior of customers, counterparties, investors, central clearing facilities, and regulators; and the failure to make, or in some cases even identify, the kinds of changes to their firm structure and practices that would be necessary to enhance the prospects for orderly resolution. Based on the review of the 2013 plans, the FDIC Board of Directors determined that the plans submitted by the eleven first-wave filers were not credible and would not facilitate an orderly resolution under the U.S. Bankruptcy Code.

In November 2014, the agencies jointly identified shortcomings, however, neither agency identified deficiencies with regard to Wells Fargo's 2014 plan. The shortcomings were required to be addressed in the firm's 2015 plan.[11]

The agencies communicated that if the 2015 resolution plans submitted by the firms did not make demonstrable progress toward addressing the shortcomings and in taking the actions outlined in the letters, the agencies may use their authority under the Dodd-Frank Wall Street Reform and Consumer Protection Act to determine that a plan is not credible or would not facilitate orderly resolution in bankruptcy.

The agencies proactively increased their engagement with the firms following issuance of the August 2014 letters. In September, the agencies met with firms to

[9] See interagency guidance (April 15, 2013), "Agencies Provide Additional Instructions for Submission of Some Resolution Plans," www.fdic.gov/news/news/press/2013/pr13027.html.

[10] See interagency press release (August 5, 2014), "Agencies Provide Feedback on Second Round Resolution Plans of 'First-Wave' Filers," www.fdic.gov/news/news/press/2014/pr14067.html.

[11] See interagency press release (November 25, 2014), "Agencies Jointly Provide Feedback on Wells Fargo's Second Resolution Plan Submission Date for Three Companies," www.fdic.gov/news/news/press/2014/pr14102.html.

discuss the letters and the review process for the 2015 submissions. The agencies made staff available at the firms' request to discuss issues in drafting their plans. There were also regular meetings between Federal Reserve System and FDIC staff to discuss issues and coordinate responses to the firms.

Appendix A: Summaries of Firm-Specific Feedback Letters

This appendix provides a summary of the deficiencies identified by the Federal Reserve Board (Board) and the Federal Deposit Insurance Corporation (FDIC) for each firm in the letters to the firms and summaries of the specific actions that must be taken to address them.

A deficiency is an aspect of a firm's resolution plan that the agencies jointly determine presents a weakness that individually or in conjunction with other aspects could undermine the feasibility of the firm's plan. In this year's assessments of firms' plans, a lack of demonstrable progress in an area highlighted in the agencies' 2014 letter could also be the basis for a deficiency. If a deficiency has been identified, the firm must correct the identified weakness to avoid being subject to more stringent regulatory requirements or restrictions, as described in the statute.

A shortcoming is a weakness or gap that raises questions about the feasibility of a firm's plan, but does not rise to the level of a deficiency for both agencies. In some instances, a weakness that only one agency considers a deficiency is a shortcoming for purposes of the letters. A shortcoming may require additional analysis from the firm or additional work by the firm, or both. If the issue is not satisfactorily explained or addressed, it may be found to be a deficiency in the firm's next resolution plan.

The deficiencies and shortcomings reflect weaknesses that the agencies consider to be important; all must ultimately be addressed by the firms.

Bank of America, Bank of New York Mellon, JPMorgan Chase, State Street, Wells Fargo

Bank of America Corporation (BAC)

The agencies jointly determined that BAC's 2015 plan was not credible or would not facilitate an orderly resolution in bankruptcy and jointly identified the deficiencies described below to be remedied by October 2016.

BAC has identified improvements that need to be made to address weaknesses that could undermine the feasibility of its plan. While progress has been made in a range of areas, some resolution project plans, for instance related to liquidity, are not yet complete.

Deficiency: Liquidity

- Inadequate model and process for estimating and maintaining sufficient and readily available liquidity at material entities
- Inadequate model and process for estimating the liquidity needed at material entities to fund resolution

  Required remediation: To address this deficiency, BAC's 2016 submission must demonstrate that the firm has developed and implemented an acceptable model that is enhanced to ensure appropriate resource positioning in resolution. In addition, BAC must provide an enhanced model and process for estimating the minimum operating liquidity needed to fund material entities in resolution to ensure that material entities could continue operating consistent with regulatory requirements, market expectations, and BAC's post-failure strategy.

Deficiency: Governance mechanisms

- Insufficiently developed triggers, particularly related to the down-streaming of resources to material entities and the timely filing of bankruptcy and related pre-filing actions

  Required remediation: To address this deficiency, the firm must present a detailed project plan for establishing governance mechanisms to facilitate its proposed recapitalization and funding in resolution.

The agencies also identified several shortcomings in BAC's resolution plan that are described in its feedback letter. The agencies expect BAC to address these shortcomings by the time of its 2017 resolution plan submission.

Bank of New York Mellon (BNYM)

The agencies jointly determined that BNYM's 2015 plan was not credible or would not facilitate an orderly resolution in bankruptcy. The agencies jointly identified the deficiencies described below to be remedied by October 2016.

BNYM has made progress in a range of areas. However, the firm's preferred strategy and the continuity of critical operations were not fully supported.

Deficiency: Operational

- Insufficient progress in identifying shared services and establishing contingency arrangements

  Required remediation: By the 2016 submission, BNYM must identify all critical services; maintain a mapping of how/where these services support its core business lines and critical operations; and incorporate such mapping into its legal entity rationalization criteria and implementation efforts. Additionally, the 2016 submission must include detailed analysis addressing any operational continuity related risks and associated mitigants for these critical services.

Deficiency: Operational

- Problematic assumptions and insufficient supporting analysis regarding its bridge bank strategy

  Required remediation: BNYM may address the issues underlying this deficiency by presenting an alternative strategy or by remediating each of the three concerns identified. In the 2016 submission, BNYM should explain how these concerns have been resolved or describe any alternative strategy it intends to present in its 2017 plan, as well as an action plan for achieving an executable strategy by July 2017, consistent with the guidance provided in the letter.

Deficiency: Legal entity rationalization

- Lack of progress in implementing its legal entity rationalization criteria across all material entities

  Required remediation: By the 2016 submission, BNYM must meet the deadlines provided in the project plan submitted to the agencies to align legal entity structure with legal entity rationalization criteria. BNYM must demonstrate the existence of a governance process regarding legal entity rationalization that is intended to ensure the legal entity rationalization criteria are applied and adhered to on an ongoing basis, including with respect to decisions regarding new legal entities and business activities.

The agencies also identified several shortcomings in BNYM's resolution plan that are described in its feedback letter. The agencies expect BNYM to address these shortcomings by the time of its 2017 resolution plan submission.

JPMorgan Chase (JPMC)

The agencies jointly determined that JPMC's 2015 plan was not credible or would not facilitate an orderly resolution in bankruptcy. The agencies jointly identified the deficiencies described below to be remedied by October 2016.

JPMC has made notable progress in a range of areas. However, particularly related to liquidity and legal entity rationalization, the firm has key vulnerabilities that could undermine the feasibility of the plan.

Deficiency: Liquidity

- Inadequate model and process for estimating and maintaining sufficient and readily available liquidity at material entities
- Inadequate model and process for estimating the liquidity needed at material entities to fund resolution

  Required remediation: To address this deficiency, JPMC must demonstrate in the 2016 submission that the firm has developed and implemented an appropriate model for resolution liquidity adequacy and positioning. JPMC also must provide in the 2016 submission an enhanced model and process for estimating the minimum liquidity needed to fund material entities in resolution to ensure that material entities could continue operating consistent with regulatory requirements, market expectations, and JPMC's post-failure strategy.

Deficiency: Legal entity rationalization

- Inadequate legal entity rationalization criteria
- Inadequate divestiture options and insufficient actionability of cited options

Required remediation: To address this deficiency, JPMC's 2016 submission should establish criteria that (i) are clear and actionable and promote the best alignment of legal entities and business lines to improve the firm's resolvability, and (ii) include the facilitation of the recapitalization of material entities prior to parent's bankruptcy filing. The 2016 submission should also include divestiture options that enable meaningful optionality and include detailed, business line specific analysis of the full range of obstacles to divestiture and associated mitigants, as well as an identification of potential buyers.

Deficiency: Derivatives and trading activities

- Insufficient support for the firm's "shrink" strategy and lack of a contingency plan

  Required remediation: The 2016 submission should address this deficiency by including an analysis and rating agency playbook for maintaining, reestablishing or establishing investment grade ratings for relevant material entities, and estimating the financial resources required to support an orderly active wind-down of the derivatives portfolio in the event that investment-grade ratings for the trading entities fail to be maintained, or reestablished post-bankruptcy filing and a passive wind-down strategy is suboptimal.

Deficiency: Governance mechanisms

- Insufficiently developed triggers, particularly given reliance on the timely filing of bankruptcy to facilitate an orderly "shrink" strategy

  Required remediation: To address this deficiency, the 2016 submission must amend, or include a project plan to amend, the board of directors' playbooks submitted in the 2015 plan. The amended playbooks must include clearly identified triggers linked to specific resolution-related actions; the triggers should incorporate JPMC's methodologies for forecasting the liquidity and capital needed to operate following a bankruptcy filing.

The agencies also identified several shortcomings in JPMC's resolution plan that are described in its feedback letter. The agencies expect JPMC to address these shortcomings by the time of its 2017 resolution plan submission.

State Street Corporation (STT)

The agencies jointly determined that STT's 2015 plan was not credible or would not facilitate an orderly resolution in bankruptcy. The agencies jointly identified the deficiencies described below to be remedied by October 2016.

STT has made progress in some areas. However, the plan contained notable weaknesses in areas related to operational (shared services) and liquidity methodology.

Deficiency: Operational

- Insufficient progress in identifying shared services and establishing contingency arrangements

  Required remediation: To address this deficiency, by the 2016 submission STT must identify all critical services necessary to support material entities; maintain a mapping of how/where these services support its core business lines and critical operations; and incorporate such mapping into its legal entity rationalization criteria and implementation efforts (i.e., stating all critical services are provided in the bank chain does not suffice).

Deficiency: Legal entity rationalization

- Underdeveloped legal entity rationalization criteria

  Remediation required: To address this deficiency, STT's 2016 submission must establish criteria that (i) are clear and actionable and promote the best alignment of legal entities and business lines to improve the firm's resolvability, and (ii) include the facilitation of the recapitalization of material entities prior to the resolution period. The 2016 submission also should reflect that STT has established governance procedures to ensure its revised legal entity rationalization criteria are applied on an ongoing basis.

Deficiency: Capital

- Questionable assumptions regarding capital levels needed to execute the resolution strategy

  Required remediation: To address the deficiency, the 2016 submission must include a revised capital projection in resolution that meets or exceeds the prompt corrective action well-capitalized standard for total risk-based capital and tier 1 leverage.

Deficiency: Liquidity

- Inadequate analysis and modelling of liquidity needed to support all material entities in resolution

  Required remediation: To address this deficiency, in the 2016 submission STT must provide an enhanced model and process for estimating the minimum liquidity needed to fund material entities in resolution to ensure that material entities can continue operating consistent with regulatory requirements, market expectations, and STT's post-failure strategy and supporting the provision of payment, clearing and settlement services to clients.

The agencies also identified several shortcomings in STT's resolution plan that are described in its feedback letter. The agencies expect STT to address these shortcomings by the time of its 2017 resolution plan submission.

Wells Fargo Corporation (WFC)

In November 2014, the agencies only identified shortcomings that were required to be, but were not sufficiently addressed, in the 2015 plan. The agencies jointly determined that WFC's 2015 plan was not credible or would not facilitate an orderly resolution in bankruptcy. The agencies jointly identified the deficiencies described below to be remedied by October 2016.

The firm's 2015 plan exhibited a lack of governance and certain operational capabilities necessary to execute the firm's resolution strategy.

Deficiency: Governance

- Material errors in plan that undermine confidence in resolution planning preparedness

  Required remediation: To address this deficiency, WFC must demonstrate in its 2016 submission that it has implemented a robust process to ensure quality control and accuracy regarding its resolution plan submissions and the consistency of financial and other information reported for material legal entities and other elements of its resolution plan.

Deficiency: Operational

- Insufficient progress toward identifying shared services and establishing contingency arrangements
- Insufficient progress in addressing operational capabilities required to execute WFC's divestiture and regional segment plan

  Required remediation: By the 2016 submission, WFC must identify all critical services necessary to support its material entities and regional segments identified for disposition; a mapping of how/where these services support the firm's core business lines, critical operations, and regional units that the firm plans to dispose of as part of its resolution strategy; and incorporation of such mapping into its legal entity rationalization criteria and implementation efforts (i.e., stating all critical services are provided in the bank chain does not suffice).

Deficiency: Legal entity rationalization

- Underdeveloped legal entity rationalization criteria

  Required remediation: To address this deficiency, WFC's 2016 submission must establish legal entity rationalization criteria that (i) are clear, actionable, and promote the best alignment of legal entities and business lines to improve the firm's resolvability, and (ii) govern the firm's corporate structure and arrangements between legal entities in a way that facilitates the firm's resolvability as its activities, technology, business models, or geographic footprint change over time. The 2016 submission also must demonstrate that the regional separation in its 2015 plan is sufficiently actionable by including detailed information for each regional unit.

Citigroup, Goldman Sachs, Morgan Stanley

Citigroup, Inc. (Citi)

The agencies jointly identified shortcomings, however, neither agency identified deficiencies with regard to Citi's 2015 plan.

Citi has made notable progress in a number of areas, including legal entity rationalization and separability, liquidity positioning, and operational (shared services). While the agencies found weaknesses, particularly with regards to governance triggers, none of those rose to the level of a deficiency.

The shortcomings must be addressed in the firm's July 2017 plan.

Goldman Sachs (GS)

The agencies jointly identified weaknesses with regard to the 2015 plan of GS but did not make a joint determination regarding the plan and its deficiencies. The FDIC found that the plan submitted by GS was not credible or would not facilitate an orderly resolution under the U.S. Bankruptcy Code and identified deficiencies.

GS has made notable progress in a range of areas, including legal entity rationalization and liquidity position. However, the firm exhibited particular weaknesses, specifically related to derivatives and liquidity methodology (post resolution).

Because the agencies did not make joint findings regarding the plan and its deficiencies, the identified weaknesses constitute shortcomings required to be addressed in the July 2017 resolution plan.

Morgan Stanley (MS)

The agencies jointly identified weaknesses with regard to the 2015 plan of MS but did not make a joint determination regarding the plan and its deficiency. The Board identified one deficiency in the plan submitted by MS and found that the plan was not credible or would not facilitate an orderly resolution under the U.S. Bankruptcy Code.

The firm provided a plan that analyzed in detail several key vulnerabilities associated with its strategy. Notable progress was made with the firm's liquidity methodology (post-resolution) and its governance mechanisms. However, the firm exhibited a particular weakness related to its resolution-related liquidity position.

Because the agencies did not make joint findings regarding the plan and its deficiencies, the identified weakness constitutes a shortcoming required to be addressed in the July 2017 resolution plan.

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