Remarks by

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Progress on Cross-Border Resolution Cooperation

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Introduction

Good morning, and thank you for inviting me to take part today.

I view the opportunity to speak with you this morning as the continuation of our ongoing work to foster cross-border cooperation to achieve a common objective: the orderly failure of systemically important financial institutions, or SIFIs.

The theme for the 2017 Single Resolution Board conference—*Building Resolvability Together*—couldn't be more appropriate. Tackling the issue of resolution of a systemically important financial institution requires the commitment of all of the groups represented here today on a global scale: resolution authorities, supervisors, central banks, finance ministries, legislators, standard setters, policy experts, and financial firms. Together, in my view, we are building a solid foundation to address this critically important issue. More work remains to be done, but we shouldn't lose sight of how far we have come. So, if I may, I would like to set the stage for today's discussions by reviewing the significant progress we've made.

SIFI Resolution in the United States and Europe

Broadly speaking, prior to the recent financial crisis, we in the United States—and, fair to say, other major jurisdictions around the world—had not envisioned that globally active, systemically important financial institutions could fail. These institutions, although large and complex, were considered well-diversified with operations spanning global markets and different business lines, putting them, it was thought, at a low risk of failure. It was assumed that these institutions had ready sources of liquidity and, should problems arise, that they would be able to raise large amounts of equity or debt.

In hindsight, those proved to be mistaken assumptions. After Lehman Brothers filed for bankruptcy in the fall of 2008, market liquidity dried up and the capital markets were unwilling to provide additional capital to other financial firms whose viability appeared uncertain. The ensuing disruptions triggered the worst financial crisis since the Great Depression.

Looking back, it is clear that we in the United States, and in many other jurisdictions, were unprepared for the challenges we faced. Lacking the necessary authorities to manage the orderly failure of a large, complex financial institution, U.S. policymakers were forced to choose between two bad options: taxpayer bailouts or financial collapse. Ultimately, policymakers leaned on the support of taxpayers as a bulwark against financial collapse. But a significant lesson was learned: We had to develop a framework to ensure the orderly failure of SIFIs, if necessary, without putting taxpayers on the hook.

Since the crisis, addressing this challenge became a top priority in jurisdictions around the world. It became clear that the financial regulatory structure needed to be fortified for resolution with designated agencies, defined authority, and demonstrable operational capabilities and resources.

In the United States, we recognized that our resolution authorities had not kept pace with changes in our financial system. While long-established, specialized, administrative authorities existed to resolve particular types of financial institutions—such as banks and broker-dealers—no agency had the authority to manage the orderly resolution of a large, complex, diversified financial institution, even if the failure of that institution could significantly destabilize the financial system and severely impact the economy. Rather, the only option available for resolution was a bankruptcy process that lacked the capabilities essential for the orderly unwind of a financial firm of the size, complexity, and international reach of the largest, most complex financial institutions.

The Dodd-Frank Act addressed these critical gaps in authority and established a framework designed to ensure that policymakers and taxpayers would not be put in the same position as in the fall of 2008.

Bankruptcy is the statutory first option under that framework. In order to improve SIFI resolution in bankruptcy, the Act requires that the largest bank holding companies and designated non-bank financial companies prepare resolution plans, also referred to as "living wills." These plans must demonstrate that the firm could be resolved under bankruptcy without severe adverse consequences for the financial system or the U.S. economy. Living wills have proven enormously helpful to firms and regulators, and they have facilitated significant improvements and structural changes within firms to improve their resolvability.

As an additional and important safeguard, the Dodd-Frank Act created the Orderly Liquidation Authority for circumstances when an orderly failure in bankruptcy might not be possible. This authority allows the FDIC to manage the orderly failure of a firm when failure in bankruptcy might threaten financial stability.

These two authorities work together, and this framework helps to ensure that financial markets and the broader economy can weather the failure of a systemically important financial institution; that shareholders, creditors, and culpable management will be held accountable without cost to taxpayers; and that such an institution can be wound down and liquidated in an orderly way.

Now, to place this in the context of this conference, our reform efforts in the United States provided new authorities to existing agencies, such as the Federal Reserve on the supervisory side and the FDIC on the resolution side.

In Europe, it seems to me, you faced a much greater challenge than we did in the United States. You had to simultaneously provide new authorities and establish new institutions to carry out those authorities. Not only did Europe enact the Bank Recovery and Resolution Directive (BRRD), but you also created new agencies to lead this effort: the Single Supervisory Mechanism, under the auspices of the European Central Bank (ECB), and the Single Resolution Mechanism, led by the Single Resolution Board (SRB).

These agencies, in my view, have already proven indispensable in implementing the new authorities and facilitating cross-border cooperation.

In many ways, the SRB's handling of the Banco Popular case was the first real test of the new resolution regimes put in place post-crisis by the major jurisdictions.

Cross-Border Cooperation

Close collaboration with European authorities has been a top priority for the FDIC. This priority is based on a simple set of facts: Of the 30 Global Systemically Important Banks (G-SIBs) identified by the Financial Stability Board, eight are headquartered in European Banking Union

member states, eight are headquartered in the United States, four in the United Kingdom, and two in Switzerland. A substantial majority of foreign assets held by the U.S. G-SIBs are located in the European Banking Union and the United Kingdom.

From the outset, we made it a particular priority to be as supportive as we could of the establishment of the SRB. From our standpoint, the FDIC and the United States had an enormous interest in the establishment of a strong and credible resolution partner in the European Banking Union. In any major future crisis, the likelihood is that our two jurisdictions would be impacted and the need for effective cross-border cooperation critical.

As a result, we engaged with the European Commission during the planning stages for the SRB to share whatever relevant experience we could offer. Once the SRB was established in 2014, we met at the earliest opportunity with the new Board both to build a close working relationship and to provide support to this critically important new institution. We detailed one of our most senior and experienced resolution executives to the SRB for three months, which turned into a six-month detail.

The FDIC now works with the SRB as a normal course of business. The FDIC and the SRB meet regularly at the senior-most levels of our agencies; we participate in each other's conferences, such as today's; we exchange staff on secondment; we engage at the staff level in regular work on horizontal and vertical cross-border resolution topics of common interest; and we share mission-critical information, including related to resolution plans.

The evolution of this working relationship with the SRB and the other European institutions was captured, in my mind, by the Principal Level Exercise on cross-border resolution that was hosted by the FDIC in October of last year. The exercise involved, at the principal level, the responsible authorities from the European Banking Union, the United Kingdom, and the United States.

I think it is worth keeping in mind that the Bank of England is more than 300 years old, the Federal Reserve is more than 100 years old, and the FDIC is more than 80 years old. In contrast, the ECB is less than 20 years old, the Single Supervisory Mechanism is less than four years old, and the SRB is in its third year of operation. In my mind, the ability of the new European institutions to engage effectively in this exercise with their counterparts from the other two jurisdictions was a powerful statement of the progress that has been made.

Last year's exercise highlighted work needed in the areas of resolution governance, capital, liquidity, and communications. These issues are being addressed by staffs from the agencies in all three jurisdictions in an effort to improve our respective cross-border resolution planning and preparedness. Proposals to carry this work forward in 2018 are already being considered.

I should note that the FDIC's engagement with Europe on cross-border resolution also involves the European Commission, the European Central Bank, and the European Banking Authority.

We maintain a standing working group with the European Commission on resolution and deposit insurance matters.

We also have regular exchanges with the European Central Bank to discuss issues of common interest involving bank supervision and resolution.

Recently, we and other U.S. financial regulators concluded a Framework Cooperation Arrangement with the European Banking Authority, as it deepens the European Union's foundation for cross-border resolution.

We have been following the ongoing consideration in the European Banking Union of the proposed European Deposit Insurance Scheme (EDIS). I believe this would be an important third leg of the European institutional framework, and I support the EDIS approach to combining the functions of resolution authority and deposit insurer.

Finally, I would be remiss in not mentioning the valuable work being done in the firm-specific, cross-border crisis management groups of supervisors and resolution authorities, as well as the important guidance provided by the Financial Stability Board's Resolution Steering Group.

Conclusion

In conclusion, I cannot underscore strongly enough the FDIC's commitment to its relationship with the SRB and the other European institutions on cross-border resolution. While much progress has been made, I am keenly aware of the work that remains to be done. It is my view that our ultimate success in addressing the challenge of the resolution of systemically important financial institutions will depend on our ability to work together on a cross-border basis.

In that regard, I would like to acknowledge the leadership of Elke König on this issue. In her roles first as head of BaFin, as Chair of the FSB's Resolution Steering Group, and now as Chair of the Single Resolution Board, she has provided extraordinary leadership in Europe and globally on this issue.

Elke, thank you again for inviting me to speak today.