

3 Resolution plans for 5 US G-SIBs are not credible

Deficiencies must be resolved before 1 October 2016

The Federal Reserve (FED) and the Federal Deposit Institution Corporation (FDIC) have provided feedback on the 2015 resolution plans for eight US G-SIBs. They find that the resolution plans for five of them are not credible or would not facilitate an orderly resolution under the U.S. Bankruptcy Code, the statutory standard established in the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Jointly both agencies have determined that the living wills of five entities (Bank of America, Bank of New York Mellon, JPMorgan, State Street and Wells Fargo) are “non-credible”. They have until 1 October 2016 to remedy and resubmit their respective plans. Regulators may impose higher capital, leverage and liquidity requirements, and restrictions on business, culminating in the ultimate sanction of forced asset divestiture.

The two agencies reached a split verdict on the resolution plans of Goldman Sachs and Morgan Stanley. The Fed, but not the FDIC, found Morgan Stanley’s plan to be “not credible”, while the agencies reached the opposite judgement on Goldman Sachs’ resolution plan. Citigroup was the only bank whose plan passed the scrutiny of both regulators, as they identified some shortcomings but no deficiencies. These three banks have to provide a status report by October 1, 2016 on their actions to address the specified shortcomings and a public section explaining, at a high level, their action plans to address those issues.

Assuming their October re-filings are judged credible, the next living will submission deadline is 1 July 2017 for all US G-SIBs.

Additionally, the agencies are continuing to assess the resolution plans of four non-US banks: Barclays PLC, Credit Suisse Group AG, Deutsche Bank AG and UBS Group AG. They did not provide any indication regarding when they will submit feedback.

Finally, the agencies are improving transparency by publishing Resolution Plan Assessment Framework and Firm Determinations (2016), which explains the resolution planning requirement, and provides further information on the determinations and the agencies’ processes for reviewing the plans and the new guidance for the July 2017 submission of all firms. Furthermore, the Federal Reserve Board is releasing the feedback letters issued to each firm. As shown in chart 1, each letter details the deficiencies and shortcomings of each firm’s plan, as well as the specific remediation required of each firm.

Figure 3.1

Deficiencies and shortcoming of each G-SIB

US GSIBs	Liquidity	Governance	Derivatives & trading activities	Changes to legal structure	Operational	Capital
BofA	●	●	●	●		
BONY	●			●	●	
JP Morgan	●	●	●	●	●	
State Street	●	●		●	●	●
Wells Fargo		●		●	●	
Goldman	●	●	●		●	
Morgan	●	●	●			
Citi	●	●	●			

● Key deficiencies to be resolved before 1 October 2016 ● Shortcoming to be resolved in the next resolution plan until July 2017

Source: BBVA Research based on Feedback letters on the US G-SIBs resolution plan

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