

Resolution Plans – Living Wills

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Resolution Plan Overview under Title I

Bankruptcy, FDIC receivership and SIPC proceedings – Required framework for Title I resolution plan

What is a Title I Resolution Plan

- Requires SIFIs to create a “**credible**” **resolution plan** assuming OLA¹ is not invoked
- Assumes a combined **bankruptcy/ bank receivership** framework for resolution²:
 - **Parent company enters US bankruptcy** court proceedings
 - **Banks** enter **FDICIA receivership** with the FDIC
 - **Broker dealers** enter **SIPC unwind proceedings** with the SEC
 - **Nonbank/ non-broker dealer** entities file for **bankruptcy** by jurisdiction

Who reviews Title I Plans

- **Board of Directors** required to review and approve annual plan
- **Credibility** of plan jointly **reviewed by FRB and FDIC**
- If not credible, regulators have authority to:
 - Impose **growth restrictions**
 - Require **additional liquidity and capital**
 - Ultimately commence actions to **break up the company**

What are the Title I key assumptions

- Critical operations protected
- Market disruption minimized
- No government bailout

¹ OLA – Orderly Liquidation Authority pursuant to Title II of Section 165 of Dodd-Frank.

² Section 165 of Dodd-Frank requires such Title I plans and bank entities also subject to FDIC bank resolution plan rules.

Timelines and Status of Resolution Plans

Tiering and Timeline

- Size of bank determines timing of submission
 - Tier 1 = July 1, 2012
 - Tier 2 = July 1, 2013
 - Tier 3 = Dec 31, 2013
- Annual submissions required

Regulator Guidance

- FED and FDIC review plan and make “Informationally Complete” determination
- US Regulators still conducting review and assessment of plan content and strategies of Tier 1 bank submissions
- **Awaiting 2013 plan guidance** from FED/FDIC
- 2013 Rules require plans, after the first submission, to address strategies for 3 economic scenarios: baseline, adverse and severely adverse

Title II - Orderly Liquidation Authority (OLA) overview

Title II – Preferred resolution strategy for a SIFI

What is OLA (Title II)

- **A new framework for the resolution of financial institutions per Dodd-Frank¹**
 - Alternative to existing bankruptcy laws
 - Extends traditional bank receivership powers and structure to bank holding companies
 - Designed to **eliminate “too big to fail”** by replacing bail outs with controlled bankruptcies
 - Allows systemically important activities to continue uninterrupted
- Initiated when a SIFI’s failure could adversely affect U.S. financial stability

Who manages OLA

- **FDIC granted authority to resolve a SIFI**
 - Successful track record of resolving regional banks and thrifts
- Preferred OLA resolution approach is **holding company recapitalization**
 - Allows all subsidiaries to continue operating, including overseas

Who is affected by OLA

- **Shareholders and creditors** bear all losses
- **Banking industry** responsible for any remaining losses
- **Taxpayers** and other “innocent bystanders” pay nothing
- **Management** responsible for failure is replaced
- **Directors and senior officers** responsible for failure have compensation clawed back

¹ Section 165(d)

APPENDIX – Summary of Resolution Plan Requirements

PUBLIC SECTION

Summary of the resolution plan that describes the business of the covered company or covered IDI
 Description, “at a high level,” of the resolution strategy, covering items such as the range of potential purchasers
 Names of material entities
 Description of core business lines
 Financial information regarding assets, liabilities, capital and major funding sources
 Description of derivatives activities and hedging activities
 List of memberships in material payment, clearing and settlement systems
 Description of foreign operations
 Identities of material supervisory authorities
 Identities of principal officers
 Description of corporate governance structure and processes related to resolution planning
 Description of material management information systems

EXECUTIVE SUMMARY

Key elements of strategic plan for resolution
 Material events since most recent plan submission that may have a material effect on the plan
 Material changes to plan since most recent plan submission
 Actions taken to improve plan or remediate or mitigate weaknesses or impediments since most recent plan submission

STRATEGIC ANALYSIS

Key assumptions and supporting analysis underlying resolution plan
 Range of specific actions to facilitate resolution of covered company, material entities, core business lines and critical operations
 Strategy for maintaining operations of covered company and material entities
 Strategy in event of failure of a material entity, core business line or critical operation
 Strategy for ensuring adequate protection of insured depository institution subsidiaries
 Identification of critical services, mapped to material entities and core business lines, and strategy for maintaining continuity of critical services
 Identification of aspects of parent company organizational structure, interconnectedness, structure of legal or contractual arrangements or overall business operations that would impact IDI in the event of receivership
 Strategy to unwind or separate IDI and its subsidiaries from organizational structure of parent company, including demonstration that strategy is the least costly resolution method
 Strategy for sale or disposition of deposit franchise in a manner that ensures prompt depositor access to insured deposits, maximum net present value return and minimum amount of loss in the resolution of cases, including demonstration that strategy is the least costly resolution method
 Funding, liquidity and capital needs, and resources available, mapped to core business lines and critical operations/services
 Processes for:
 Determining market value and marketability of core business lines and material asset holdings (and, for 165(d) plans, critical operations);
 Assessing feasibility of actions contemplated in resolution plan; and
 Assessing impact of actions contemplated in resolution plan on value, funding and operations

APPENDIX – Summary of Resolution Plan Requirements - *continued*

ORGANIZATIONAL STRUCTURE AND RELATED INFORMATION

Legal and functional structure analysis, including mapping of core business lines (and, for 165(d) plans, critical operations) to material entities

Analysis of inter-affiliate funding relationships, accounts, exposures and other interconnections and interdependencies

Discussion of overall deposit activities, including unique aspects of deposit base or underlying systems that may create operational complexity or result in extraordinary resolution expenses in the event of failure

Description of systemically important functions and critical vulnerabilities

Description of material components of liabilities, separately identifying short-term and long-term, secured and unsecured and subordinated liabilities

Description of processes to identify pledgees and holders of collateral, including jurisdiction where collateral held and, if different, the jurisdiction where the security interest in the collateral is enforceable

Description of material off-balance sheet exposures

Description of practices related to booking of trading and derivatives activities

Identification of material hedges and hedging strategies

Description of process undertaken to establish exposure limits

Identification of major counterparties and analysis of interconnections, interdependencies and relationships, including impact of failure of major counterparties

Identification of material participations in trading, payment, clearing and settlement systems, including mapping of memberships to legal entities and core business lines (and, for 165(d) plans, critical operations)

Unconsolidated balance sheet and consolidating schedule for material entities

Description of components of organizational structure based or located outside the and of foreign deposits and assets

CORPORATE GOVERNANCE AND CONTACT INFORMATION

Description of integration of resolution planning into corporate governance structure and processes; policies, procedures and internal controls governing preparation and approval of resolution plan; identification of senior management official(s) primarily responsible for resolution plan

Identification of a senior management point of contact regarding the covered company's resolution plan and contact information for a senior management official of each material entity

Nature, extent and results of contingency planning or similar exercises to assess viability of or improve resolution plan

Description of relevant risk measures used for internal and external reporting

MANAGEMENT INFORMATION SYSTEMS (MIS)

Inventory and description of key MIS, including descriptions of legal owner or licensor, service level agreements, software and system licenses and associated intellectual property

Analysis of capabilities of MIS to collect, maintain and report information underlying the resolution plan, including deficiencies, gaps and weaknesses in such capabilities

Mapping of key MIS to material entities, core business lines and critical operations

Identification of scope, content and frequency of key internal reports for monitoring financial health, risks and operations

Description of process for supervisory or regulatory authorities to access key MIS

Discussion of disaster recovery or other backup plans

SUPERVISORY AND REGULATORY INFORMATION

Identification of relevant and foreign supervisory and resolution authorities