Office of Inspector General

Office of Audits and Evaluations
Report No. EVAL-16-006

The FDIC's Resolution Plan Review Process

September 2016

Office of Inspector General

Executive Summary

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Why We Did The Evaluation

Complete and credible resolution plans for large financial companies was a key component of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act). These financial companies are required to periodically submit resolution plans to the FDIC and the Board of Governors of the Federal Reserve System (Federal Reserve Board) which, in turn, determine whether the plans are complete and credible for achieving the financial companies' rapid and orderly resolution in the event of their material financial distress or failure.

Our objective was to assess the FDIC resolution plan review process for determining whether (1) resolution plans are informationally incomplete and (2) shortcomings exist to the plans' credibility. The FDIC Board of Directors uses information resulting from the resolution plan review process when determining whether the resolution plans are not credible. To address our objective, we judgmentally selected 8 of the 12 resolution plans submitted as of July 1, 2015, and evaluated the resolution plan review process conducted from July 2015 to September 2015.

Background

In response to the financial crisis from 2007 to 2009, the President signed the Dodd-Frank Act into law on July 21, 2010, to enhance regulation of the largest financial companies. Section 165(d) of the Dodd-Frank Act requires bank holding companies with $50 billion or more in consolidated assets and nonbank financial companies designated by the Financial Stability Oversight Council (FSOC) to periodically submit to the FDIC, the Federal Reserve Board, and FSOC, resolution plans that detail how the companies could be resolved in a rapid and orderly manner in the event of material financial distress or failure.

To implement the Dodd-Frank Act, the FDIC and the Federal Reserve Board jointly issued a "Final Rule," entitled *Resolution Plans Required*, on November 1, 2011, which applied to each covered company and established rules and requirements regarding the submission and content of a resolution plan, as well as procedures for FDIC and Federal Reserve Board review of each resolution plan.

The FDIC and the Federal Reserve Board may jointly determine that a plan is not credible or would not facilitate an orderly resolution of the company under the Bankruptcy Code as part of their new authorities. If a company ultimately fails to submit a plan that demonstrates its resolvability in bankruptcy, the FDIC and the Federal Reserve Board may jointly impose more stringent capital, leverage, or liquidity requirements on the company or its subsidiaries. Additionally, the agencies may restrict a firm's growth, activities, or operations.

Evaluation Results

The FDIC established a process and framework for determining whether resolution plans are informationally incomplete and identifying any shortcomings to the plans' credibility. The FDIC also built controls within the process to promote consistency and help ensure that management's program objectives are met. For example, the FDIC provided guidance to the resolution plan reviewers for conducting the completeness and shortcomings assessments. Program controls also included assigning qualified reviewers who had experience with large bank analysis and/or resolution plan reviews; developing relevant training and standardized templates for conducting the plan reviews and documenting the results; providing consistency by ensuring that the same information on any particular issue would be disseminated across all review teams; and building multiple levels of review and supervision into the review process, including an executive oversight group function.

Based on our review of eight resolution plans, the plan review teams complied with the established framework for conducting completeness and shortcomings reviews, and we concluded the review teams assessed the eight resolution plans in a consistent manner. In addition, the FDIC met its Dodd-Frank Act requirement for reviewing and notifying the firms of their plans' informational completeness within 60 days of receipt.

During the course of our evaluation, resolution plan review team members provided suggestions for enhancing the resolution plan review process. We communicated these suggestions to senior Office of Complex Financial Institutions (OCFI) and Division of Risk Management Supervision-Complex Financial Institutions (RMS-CFI) officials for their consideration at the conclusion of our fieldwork. It is important to note that our evaluation addressed the FDIC's program and process for assessing the resolution plans. We did not perform work to evaluate the FDIC's conclusions based on the resolution plan reviews or the effectiveness of the firms' plans in resolving a SIFI failure or mitigating financial system disruption.

Corporation's Comments

The Directors of OCFI and RMS provided a joint written response, dated September 19, 2016, to a draft of this report. The Directors concurred with the report's conclusions.

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Federal Deposit Insurance Corporation
3501 Fairfax Drive, Arlington, VA 22226

Office of Audits and Evaluations
Office of Inspector General

DATE: September 28, 2016

MEMORANDUM TO: Arthur J. Murton
Director, Office of Complex Financial Institutions

Doreen R. Eberley
Director, Division of Risk Management Supervision

/Signed/

FROM: E. Marshall Gentry
Assistant Inspector General for Evaluations

SUBJECT: Evaluation Report Entitled, *The FDIC's Resolution Plan Review Process* (Report No. EVAL-16-006)

This report presents the results of our evaluation of the FDIC's resolution plan review process. Systemically important financial institutions (SIFIs)[1] submit resolution plans as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act). Our evaluation covered the FDIC's process for reviewing resolution plans submitted on July 1, 2015, by 8 of the 12 largest SIFIs which had $250 billion or more in total consolidated assets.

Objective and Approach

Complete and credible resolution plans for large financial companies was a key component of the Dodd-Frank Act. These financial companies are required to periodically submit resolution plans to the FDIC and the Board of Governors of the Federal Reserve System (Federal Reserve Board) which, in turn, determine whether the plans are complete and credible for achieving the financial companies' rapid and orderly resolution in the event of their material financial distress or failure.

Our objective was to assess the FDIC resolution plan review process for determining whether (1) resolution plans are informationally incomplete[2] and (2) shortcomings exist to the plans' credibility. The FDIC Board of Directors uses information resulting from the resolution plan review process when determining whether the resolution plans are not credible.[3] To address our objective, we judgmentally selected 8 of the 12 resolution plans submitted as of July 1, 2015, and

[1]SIFIs refer to bank holding companies with $50 billion or more in total consolidated assets and nonbank financial companies designated by the Financial Stability Oversight Council for Federal Reserve Board supervision and enhanced prudential standards by the Dodd-Frank Act (12 U.S.C. §§ 5322 and 5323).
[2]12 CFR Ch. III §381.5(a)(2) provides that the FDIC determines whether a resolution plan is "informationally incomplete."
[3]12 CFR Ch. III § 381.5(b) provides that the FDIC's Board of Directors determines whether a resolution plan is "not credible."

evaluated the resolution plan review process conducted from July 2015 to September 2015. The SIFIs included in our evaluation are shown in Table 1.

Table 1: SIFI Resolution Plan Assessment Folders Reviewed

	SIFI Name	Firm-Type
1	Wells Fargo	Universal Bank
2	JP Morgan Chase	Universal Bank
3	Morgan Stanley	Investment Bank
4	Goldman Sachs	Investment Bank
5	State Street Bank	Custody Bank
6	Bank of New York Mellon	Custody Bank
7	Barclays	Foreign Bank
8	Credit Suisse Group	Foreign Bank

Source: OCFI List of SIFIs Filing on July 1, 2015.

Our selection was intended to cover SIFIs with varying types of organizations and business lines. We reviewed Office of Complex Financial Institution (OCFI) policies and procedures, including FDIC resolution plan review guidance; compared summaries documenting the review of the eight resolution plans to the review guidance; and verified that documentation existed to support reviews for each of the selected SIFIs. Appendix 1 of this report includes additional details on our objective, scope, and methodology. We conducted this evaluation in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*.

Background

In response to the financial crisis from 2007 to 2009, the President signed the Dodd-Frank Act into law on July 21, 2010, to enhance regulation of the largest financial companies. Section 165(d) of the Dodd-Frank Act requires bank holding companies with $50 billion or more in consolidated assets and nonbank financial companies designated by the Financial Stability Oversight Council (FSOC) to periodically submit to the FDIC, the Federal Reserve Board, and FSOC, resolution plans that detail how the companies could be resolved in a rapid and orderly manner in the event of material financial distress or failure.[4] Furthermore, Section 165(d) of the Dodd-Frank Act requires resolution plans to include the following information:

- the manner and extent to which any insured depository institution affiliated with the company is adequately protected from risks arising from the activities of any nonbank subsidiaries of the company;

- descriptions of the company's ownership structure, assets, liabilities, and contractual obligations; and

[4]Pub. L. No. 111-203, § 165(d)(1), 124 Stat. 1376, 1426 (2010) (codified at 12 U.S.C. § 5365(d)(1)). The Dodd-Frank Act established FSOC to monitor the stability of the U.S. financial system and take actions to mitigate risks that might destabilize the system. The act also gave FSOC a number of significant authorities to help it execute its broad mission, including authority to designate nonbank financial companies for supervision by the Federal Reserve Board.

- identification of the cross-guarantees tied to different securities, identification of major counterparties, and a process for determining to whom the collateral of the company is pledged.

To implement the Dodd-Frank Act, the FDIC and the Federal Reserve Board jointly issued a "Final Rule," entitled *Resolution Plans Required*, on November 1, 2011, which applied to each covered company and established rules and requirements regarding the submission and content of a resolution plan, as well as procedures for FDIC and Federal Reserve Board review of each resolution plan.

Under the final rule, a resolution plan must contain an executive summary, a strategic analysis of the plan's components, a description of the covered company's corporate governance structure for resolution planning, information regarding the covered company's overall organizational structure, information regarding the covered company's management information systems, a description of interconnections and interdependencies among the covered company and its material entities, and supervisory and regulatory information.

The FDIC and the Federal Reserve Board may jointly determine that a plan is not credible or would not facilitate an orderly resolution of the company under the Bankruptcy Code as part of their new authorities. If a company ultimately fails to submit a plan that demonstrates its resolvability in bankruptcy, the FDIC and the Federal Reserve Board may jointly impose more stringent capital, leverage, or liquidity requirements on the company or its subsidiaries. Additionally, the agencies may restrict a firm's growth, activities, or operations.

FDIC Organizations Responsible for the Resolution Plan Review Process

In August 2010, the FDIC's Board of Directors established OCFI to serve as the focal point for implementing the Corporation's authorities under the Dodd-Frank Act, including developing resolution policy, strategy, and operational resolution plans; and evaluating SIFI-provided resolution plans. The OCFI and the Division of Risk Management Supervision's Complex Financial Institutions Section (RMS-CFI) share responsibility for reviewing the resolution plans. The OCFI has the primary responsibility for determining if plans for the largest SIFIs are informationally incomplete and/or have shortcomings. Subject matter experts from other FDIC divisions including the Legal Division, Division of Resolutions and Receiverships (DRR), and Division of Insurance and Research (DIR) participate on reviews as needed.

Coordination Efforts by the FDIC

Although the FDIC and the Federal Reserve Board conduct largely independent assessments of the resolution plans, the agencies coordinate throughout the review process. Before each periodic resolution plan filing cycle, the agencies independently determine the scope of their plan reviews. The agencies then compare their assessment areas and generally agree on the same areas of focus, and share training materials to ensure that the agencies are on a consistent path. The agencies also coordinate meetings with the firms and information requests to minimize any duplicative efforts. The Dodd-Frank Act and the final resolution plan rule require their boards to make a joint determination, in particular when finding resolution plans not credible, before taking certain actions.

Evaluation Results

The FDIC established a process and framework for determining whether resolution plans are informationally incomplete and identifying any shortcomings to the plans' credibility. The FDIC also built controls within the process to promote consistency and help ensure that management's program objectives are met. Based on our review of eight resolution plans, we found that the plan review teams complied with the established framework for conducting completeness and shortcomings reviews, and we concluded that the review teams assessed the eight SIFI resolution plans in a consistent manner.

The FDIC Established a SIFI Resolution Plan Review Framework for Assessing Informational Completeness and Identifying Shortcomings

Completeness Assessment

The completeness assessment is the first step in the resolution plan review process. The objective of the completeness assessment is to determine whether the resolution plan meets the minimum informational requirements under Section 165(d) of the Dodd-Frank Act. This section also requires that the FDIC review plans within 60 days of receipt to determine whether the plans are informationally incomplete.[5] If the plan is deemed incomplete, the submitting financial company has 30 days to submit a completed resolution plan.

The completeness review team—consisting of members from OCFI, RMS-CFI, and the Legal Division—conducted the completeness reviews of the plans in our sample using a standard template based upon Section 165(d) requirements. The template for each SIFI resolution plan was indexed to the specific resolution plan pages or sections applicable to the requirement. Upon completion of the review, a memorandum was submitted to the appropriate team lead for each SIFI summarizing the results and conclusions as to the informational completeness of the SIFI's resolution plan. None of the resolution plans we reviewed were found by the completeness teams to be informationally incomplete.

Shortcomings Assessment

The objective of the shortcomings assessment is to identify challenges or shortcomings with the strategies and operational readiness detailed in the resolution plans. This assessment includes both a vertical component and a horizontal component.

[5]The FDIC found all eight of the resolution plans covered by our sample not to be informationally incomplete. In conjunction with the Federal Reserve Board, each of the firms was verbally notified that their plans were determined not to be informationally incomplete.

Vertical Review Component. The vertical component assessed each resolution plan according to five standard issue areas or "pillars" as described in Table 2 and was executed by separate teams of reviewers for each resolution plan.

Table 2: Vertical Team Resolution Plan Pillar Descriptions

Pillar Number	Pillar Assessment Area	Summarized Pillar Objective
1	Critical Operations	To identify all activities or operations that potentially transmit systemic risk, the complete business chain involved with any critical operation, and the strategy for substantially mitigating the risk to financial stability through the resolution period.
2	Stress Scenario	To assess the firm's adherence to the requirements and guidance for the resolution period, the achievement of a failure state, and inclusion of financial statements at key junctures with sufficient detail to identify and follow the impact of the strategy, stress, and assumptions through exit.
3	Material Entity Strategy	To analyze the strategy for each material entity relative to the overall strategy and the firm's corresponding determination of the resources required to execute the strategy.
4	Operational Readiness	To assess the firm's current ability to implement its strategy as defined in its resolution plan.
5	Corporate Governance	To assess the corporate governance for informational completeness, sufficiency of resolution planning, actions the firm has and/or plans to take to enhance resolvability, and degree of transparency provided.

Source: OIG review of pillar assessment guidance.

Each vertical team generally was comprised of a designated team lead and three to five team members. To structure the planned reviews, each vertical team lead prepared a scoping memorandum which included key areas of focus, background information from previous resolution plans, assignments of specific review components, and products to be delivered. A team member was assigned as the lead for each of the five pillars and was responsible for conducting the vertical review of the resolution plan for their respective pillar. Guidance was provided for each pillar to focus the review and identify specific questions related to the pillar topic. Pillar leads were instructed that this guidance was to be used as a road map for conducting the vertical review, but that every question may not be significant to every SIFI resolution plan because of differences in SIFI organization and business lines, for instance. Upon completion of the vertical assessment, the pillar lead prepared a pillar assessment memorandum which detailed any shortcomings identified in the resolution plan and recommendations for mitigating the shortcomings. The team lead used these pillar assessment memorandums to prepare an overall assessment summary on the SIFI. To complete the vertical assessment, each team presented its findings to the executive oversight group comprised of officials from OCFI, RMS-CFI, Division of Insurance and Research, and Legal Division, and answered the group's questions and received feedback.

Pillar Oversight Leads. To provide oversight and guidance to the vertical teams during the review, individuals were assigned as pillar oversight leads for each of the five pillars. The primary purpose of the pillar oversight leads was to ensure consistency in the assessment process and consider findings across the vertical teams and their reviewed institutions. They worked to make sure that guidance was applied consistently for each of the pillar reviews by providing a horizontal analysis of all the firms. In addition, pillar oversight leads responded to questions and discussed issues from the teams during the resolution plan review and shared the outcome of these so that the same information was provided to all of the teams. If needed, the pillar oversight leads would raise the issue to the executive oversight group and formally document the questions and the responses. The pillar oversight leads were also responsible for having ongoing communication with the pillar leads and reviewing the summary memorandums related to their respective pillars from each of the team leads.

Horizontal Review Component. The horizontal review component was added to the shortcomings assessment for the 2015 resolution plan review process to complement the vertical review by providing a deeper analysis of specific plan requirements. This involved assigning separate teams to assess six separate key requirements areas across all resolution plans. Table 3 describes each of these plan requirements.

Table 3: Horizontal Team Resolution Plan Review Descriptions

Horizontal Assessment Area	Assessment Objective
Rational Legal Entity Structure	To assess the plan's strategy for achieving a rational and less complex legal entity structure.
Critical Operations	To assess the plan's identification of material entities that provide or are proposed to provide inter-affiliate services supporting critical operations and descriptions of legal entity structures to support an orderly resolution of operations.
Qualified Financial Contracts	To assess the plan's discussion of the impact of these contracts on the firm's orderly resolution.
Top-Tier Holding Company	To assess how the firm's holding company structure supports resolvability or is preparing to move towards a top-tier holding company structure that supports resolvability.
Governance Mechanism	To assess the plan's identification of governance mechanisms in place or in development that will ensure execution of required board actions.
Resolution Resource	To assess the plan's strategies for ensuring that the firm will have enough liquidity and capital to implement the proposed strategy.

Source: OIG review of horizontal assessment guidance.

The horizontal review facilitated cross-firm comparison related to these key areas. These horizontal review teams generally comprised three to five team members with a designated lead. Each team reviewed all of the resolution plans related to its assigned assessment area to identify shortcomings and ensure that these areas were evaluated in a consistent manner across all resolution plans. Standard templates including the key issue areas to be reviewed were provided to the horizontal review team members to document the results of their assessment of each SIFI resolution plan. Horizontal review results were then documented in a summary prepared by the horizontal team lead. Horizontal review teams presented the results of their resolution plan assessments to the executive oversight group upon completion of their work.

Controls in the Resolution Plan Review Process

The FDIC built controls within the resolution plan review process to promote compliance with established resolution plan guidance and to help ensure that management's program objectives of determining resolution plan completeness and any shortcomings were met. As such, these controls promoted consistency in the review process.

The GAO's *Standards for Internal Control in the Federal Government*, September 2014, provides an overall framework for establishing and maintaining an effective internal control system by federal entities. Selected controls in the resolution plan review process that correspond to the internal control standards included:

Training and Guidance. In May 2015, OCFI conducted resolution plan assessment training for all participants in the 2015 resolution plan review effort. This training provided the review participants with standard procedures and templates to document each resolution plan assessment and instructed participants on the assessment approach, core objectives, team responsibilities, and communications flow.

The training manual distributed during this training included pillar guidance to be used in conducting the shortcomings assessment. This guidance identified resolution plan elements and common issue areas to be assessed for each resolution plan. Resolution plan reviewers during our interviews stated that this training facilitated their understanding of the resolution plan review process and, because it provided a standard methodology, promoted a consistent review of the resolution plans across the SIFIs.

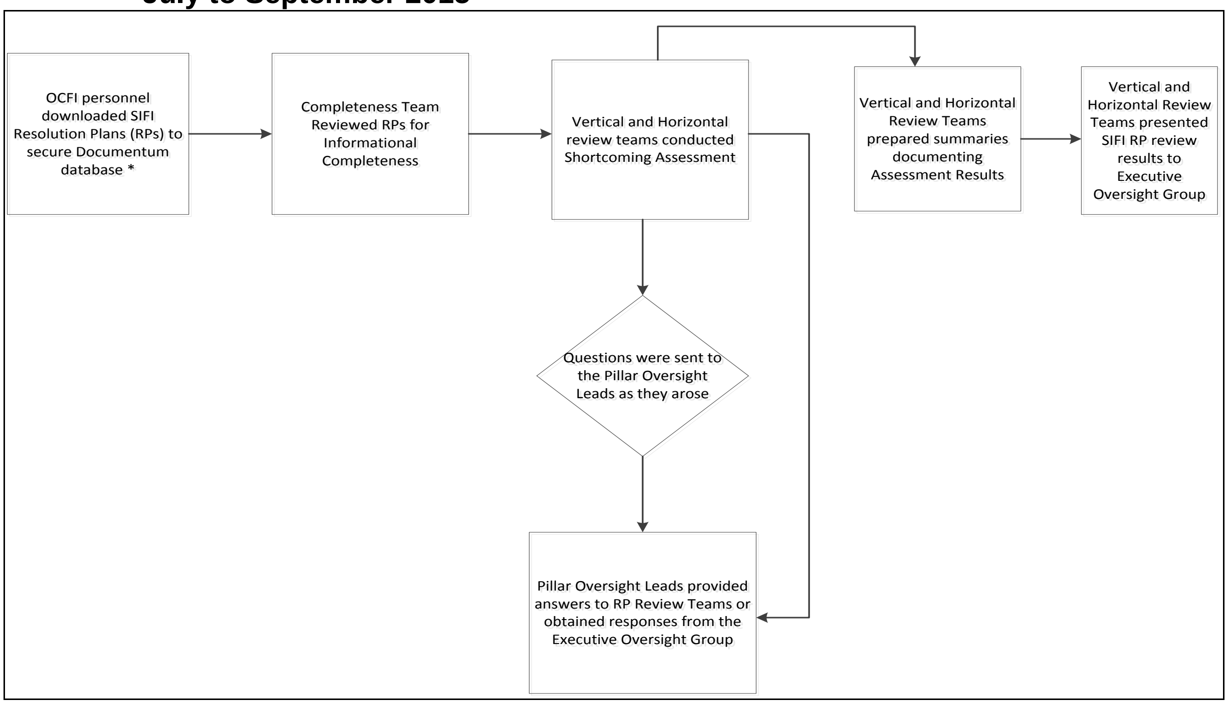
Staffing. Resolution plan review team members we spoke with generally had worked on previous resolution plan reviews and/or had experience conducting large bank analysis. Because of this experience, reviewers told us that they were able to readily apply the training guidance and understand the SIFIs' organizational structure and failure scenario described in the resolution plan. In addition, to ensure objectivity, the resolution plan review staff was required to complete confidentiality and conflict of interest certifications prior to assessing the resolution plans.

Sharing Information. Review results were loaded to the shared resolution plan document folder available to all resolution plan reviewers. This upload provided consistency by ensuring that the same information on any particular issue would be disseminated across all SIFI review teams. Also, pillar oversight phone calls were regularly held throughout the review process between the pillar oversight lead and pillar leads from each resolution plan review team. In addition, calls were conducted with each of the SIFIs during the vertical review process to provide the reviewers with an opportunity to ask questions and obtain clarifying information. Reviewers told us that their communication with the pillar oversight leads and the SIFIs greatly facilitated the resolution plan review process. Furthermore, horizontal team members communicated with the vertical teams as needed to discuss any common areas involved in their respective reviews to ensure consistency and eliminate duplication.

Supervision. As previously discussed, the process included supervisory controls within the completeness and shortcomings assessments. Furthermore, after these review teams completed their work, their findings were subject to further review at a higher level. Each vertical team presented its assessment of the firm's resolution plan to the executive oversight group. The executive oversight group was involved throughout the resolution plan review process. This included providing guidance, coordinating communications between review teams, coordinating with Federal Reserve Board senior staff, and reviewing and summarizing final resolution plan assessment results. In addition, the executive oversight group presented staff-level findings from the resolution plan review process to the FDIC Board of Directors for its decision-making purposes.

Figure 1 provides a chronological view of the 2015 resolution plan review process for SIFIs and the various teams involved.

Figure 1: Summary of the SIFI Resolution Plan Review Process Conducted from July to September 2015



Source: OIG-generated.
* The FDIC used EMC Corporation's Documentum software to organize, manage, and share SIFI resolution plans and its analyses among team members.

Resolution Review Teams Complied with the Established Framework

We found that the resolution plan review teams complied with the established framework for conducting its completeness, and vertical, and horizontal shortcomings assessments for the eight resolution plans that we reviewed. We also concluded the review teams assessed the eight SIFI resolution plans in a consistent manner. Table 4 summarizes the results of our evaluation.

Table 4: Summary of Evaluation Results

2015 Resolution Plan Review Process	Results of the OIG Evaluation	
Completeness Assessment	**Template Applied and Indexed**	**Completed within 60 Days**
Completeness Template	✓	✓
Shortcomings Assessments-Vertical	**Pillar Guidance Applied**	**Review Results Documented**
Pillar 1-Critical Operations	✓	✓
Pillar 2-Stress Scenario	✓	✓
Pillar 3-Material Entity	✓	✓
Pillar 4-Readiness	✓	✓
Pillar 5-Governance	✓	✓
Shortcomings Assessments-Horizontal	**Template Documented**	**Summary Results Documented**
Rational Legal Entity Structure	✓	✓
Critical Operations	✓	✓
Qualified Financial Contracts	✓	✓
Top-Tier Holding Company	✓	✓
Governance Mechanism	✓	✓
Resolution Resource	✓	✓

Source: OIG analysis of resolution plan review documentation for eight resolution plans.

Completeness Assessment

We reviewed completeness assessment documentation prepared for the eight SIFIs in our sample and concluded that the review teams assessed each SIFI resolution plan for completeness using the standard template, thus providing consistency in the review process and proper documentation of the review. In addition, the teams completed the review process within 60 days of receipt as required by Section 165(d) of the Dodd-Frank Act.

Specifically, the completeness review teams, consisting of members from OCFI, RMS, and the Legal Division, conducted the completeness reviews of the firms using the standard template provided in the review guidance and derived from reporting requirements established by Section 165(d) and the Final Rule. The completed template for each SIFI resolution plan was indexed to the specific resolution plan pages or sections applicable for that reporting requirement. The completeness team leads also prepared a memorandum documenting the assessment results for the firm. None of the resolution plans were found by the completeness team to be informationally incomplete.

We reviewed a judgmental sample of indexes from each of the completeness templates to verify that the indexes traced to the appropriate section of the resolution plan. In addition, we compared the completeness summary memorandums for each SIFI to the supporting template to verify that the memorandums accurately reflected the results of the completeness review and were prepared within required timeframes. We found that the completeness assessment documentation was consistently prepared, and we noted no exceptions related to the eight SIFIs we reviewed.

Shortcomings Assessment

Vertical Review. We evaluated the vertical review component for the eight firms in our sample to assess whether the pillar assessments were conducted in compliance with FDIC guidance, consistently across all SIFIs, and adequately supported. We compared each of the five pillar assessment memorandums for each SIFI to the related pillar guidance to assess the extent to which the topics and questions included in the guidance were covered in the pillar assessment memorandums. We compared the extent to which applicable questions were covered for each SIFI to assess the consistency of the process.[6] We found that each of the pillar assessment memorandums followed the guidance established for the review and substantially covered the applicable topics and questions included in the pillar guidance. Also, each of the summary memorandums reported shortcomings identified during the review. In addition, our interviews of the pillar leads indicated that the pillar guidance was used in a similar manner by the teams. We were told that the pillar guidance was discussed during the May 2015 training session for resolution plan reviewers and that the guidance facilitated the pillar review by focusing upon areas and questions to consider. These interviews also indicated that communications with the pillar oversight leads provided direction to ensure that reviewers assessed the pillars in a consistent manner across the SIFIs.

Horizontal Review. Team members told us that they communicated with the respective pillar teams to promote consistency and eliminate duplication. In addition to interviewing the horizontal team members, we verified that each horizontal team documented its review in a similar manner and used the same criteria for each SIFI reviewed. We noted no exceptions.

Both the vertical and horizontal team members mentioned their executive oversight group presentations were comprehensive and that the executive oversight group asked specific questions about the review results. They characterized the presentation process as very positive because it ensured the reviews were conducted in a consistent and thorough manner.

Conclusion

Based on our review of eight resolution plans, we found that the plan review teams complied with the established framework for conducting completeness and shortcomings reviews, and we concluded the review teams assessed the eight SIFI resolution plans in a consistent manner. In addition, we found that the FDIC met its Dodd-Frank Act requirement for reviewing and notifying the firms of their plans' informational completeness within 60 days of receipt. During the course of our evaluation, resolution plan review team members provided suggestions for enhancing the resolution plan review process. We communicated these suggestions to senior

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[6] Pillar teams were not required to address every question in their pillar memorandums because of differences in SIFI organization and business lines.

OCFI and RMS-CFI officials for their consideration at the conclusion of our fieldwork. It is important to note that our evaluation addressed the FDIC's program and process for assessing the resolution plans. We did not perform work to evaluate the FDIC's conclusions based on the resolution plan review or the effectiveness of the firms' plans in resolving a SIFI failure or mitigating financial system disruption.

Corporation Comments and OIG Evaluation

The Directors of OCFI and RMS provided a joint written response, dated September 19, 2016, to a draft of this report. The Directors concurred with the report's conclusions. The response is presented in its entirety in Appendix 2.

Objective, Scope, and Methodology

Objective

Our evaluation objective was to assess the FDIC resolution plan review process for determining whether (1) resolution plans are informationally incomplete and (2) shortcomings exist to the plans' credibility. We performed our evaluation from March 2016 through June 2016 in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation.*

Scope and Methodology

The scope of this evaluation included the FDIC's 2015 resolution plan review process for SIFIs, specifically, 8 of the 12 largest firms with $250 billion or more in total nonbank assets. Our methodology included selected testing of the FDIC's process for determining whether resolution plans were informationally complete and identifying shortcomings to the plans' credibility.

We performed our work at FDIC's offices in Arlington, Virginia, and Washington, D.C. To address our objective, we obtained an understanding of the process established for assessing resolution plans and controls established throughout the process to ensure that the plans were reviewed consistently.

To address our evaluation objective, we gained an understanding of the FDIC's resolution plan review organization and process by reviewing relevant guidance and interviewing OCFI and RMS-CFI officials and resolution plan review staff. We selected a judgmental sample of eight firms for review, consisting of two firms from each of the firm-types (universal, investment, custody, and foreign parent).[7] We conducted procedures necessary to confirm whether the guidance provided by OCFI was consistently followed by the review teams for each of the eight firms. In addition, we interviewed vertical and horizontal team members to solicit suggestions for improvement in the resolution plan review process. In particular for each firm, we:

- Compared the FDIC completeness checklist for each firm to the resolution plans to confirm checklists were accurately completed,
- Compared FDIC pillar summary memorandums to FDIC pillar guidance to evaluate compliance with the guidance,
- Interviewed vertical team leads and team members to (1) obtain explanations for any issue areas not addressed by the pillar summary memorandum and (2) solicit suggestions for improvement in the vertical review process,
- Interviewed horizontal team members to solicit suggestions for improvement in the horizontal review process, and
- Analyzed Documentum files to ensure proper documentation of all official memorandums with supporting memorandums and schedules.

We did not perform work to evaluate the FDIC's conclusions based on the resolution plan review or the effectiveness of the firms' plans in resolving a SIFI failure or mitigating financial system disruption.

[7] Judgmental samples are nonstatistical and analysis results cannot be projected to an overall population.

Corporation Comments

FDIC

Federal Deposit Insurance Corporation
1776 F Street NW, Washington, D.C., 20429-9990

September 19, 2016

TO: E. Marshall Gentry, Assistant Inspector General for Evaluations
Office of Inspector General

FROM: Arthur J. Murton, Director /Signed/
Office of Complex Financial Institutions

Doreen R. Eberley, Director /Signed/
Division of Risk Management Supervision

SUBJECT: Response to Drall Evaluation Report Entitled, *The FDIC's Resolution Plan Review Process* (Assignment No. 2016-014)

The Office of Complex Financial Institutions (OCFI) and Division of Risk Management Supervision (RMS) have received and considered the draft evaluation report entitled, The FDIC’s Resolution Plan Review Process (the Report).

The Report finds that the FDIC has established a process and framework for determining whether resolution plans arc informationally incomplete and for identifying any shortcomings to the plans' credibility. The Report acknowledges that FDIC built controls within the process to promote consistency and help ensure that management's program objectives are met. These controls included providing guidance to the resolution plan reviewers for conducting the completeness and shortcomings assessments, assigning qualified reviewers who had experience with large bank analysis and/or resolution plan reviews, developing relevant training and standardized templates for conducting the plan reviews and documenting the results; and building multiple levels of review and supervision into the review process, including an executive oversight group function.

Thank you for the opportunity to review and comment on the draft Report. We appreciate the thorough review performed by the OTG staff and we concur with the Report's conclusions.