WHITE PAPER

A Practitioner's Guide to Recovery and Resolution Planning

In response to the financial crisis of 2008, global regulations were developed and passed into law. The regulations required Systemically Important Financial Institutions (SIFIs) with assets of a certain amount or greater to submit a recovery plan and a resolution plan to the FDIC and the Federal Reserve.

In the United States, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank). Dodd-Frank, signed into law in 2010, requires financial firms with $50 billion or greater in consolidated assets to produce and submit these plans.

Recovery and Resolution Plans (RRPs)—more specifically, the process and oversight of Bank Holding Companies (BHCs) and SIFIs based on their plans—are designed to protect the United States and global economy against the catastrophic damage that could result from an institution of this size failing.

BHCs and SIFIs have been drafting and submitting their RRPs over the past few years in three waves:

- **Wave One**—firms with $250B or greater in assets
- **Wave Two**—firms between $100B and $250B in assets
- **Wave Three**—firms between $50B and $100B in assets

Dodd-Frank RRP reporting requirements offer unique challenges, but through these challenges, there also exists an opportunity to significantly strengthen your firm's reporting and oversight infrastructure.

The following seven steps describe how to successfully build out your RRP process in a way that turns reporting challenges into opportunities to improve process controls and oversight.

Step One: Building your story—addressing the spirit of the mandate

Your RRP should explain how your firm will systematically manage all executive and ground-level functioning during and after a period of distress. The final rule in Dodd-Frank (Sect. 165) requires qualifying financial institutions to provide an in-depth detailing of far-reaching aspects of institutions' corporate structure, including, but not limited to:

- Core business lines and critical operations
- An integrated analysis of its corporate structure
- All financial exposures, including credit, funding, capital, and cash flow
- All jurisdictions where the organization operates, both foreign and domestic
- Supporting information systems for core business and critical operations

This responsibility should prompt the questions:

1. How will your firm recover from various distress scenarios?
2. What is your firm's plan for resolution, should it be needed?

A smart first step to creating the RRP is to build a strategy that addresses each of these questions up front. There are a multitude of resources outlining strategies on what should be included in your RRP. The focus here is not on the *what*, but rather on developing the best strategy of *how* to pull together what will be included in your RRP.

Given the breadth of information required by Dodd-Frank Sect. 165, you'll need cooperation and input from your executive team, board, and all aspects of your firm's operations to successfully develop your RRP and address all mandate requirements.

Engage your CEO and executive team early in the process. They will provide the executive sponsorship, involvement, and oversight to hit the ground running. You'll also need active involvement from cross-functional stakeholders, business units, and geographic leaders to ensure information is accurate and complete.

Step Two: Success begins and ends with executive ownership, sponsorship, and engagement

Given the amount of transparency this reporting process requires, it is vital that there be true executive sponsorship and engagement throughout the process of developing your RRP. More than just your firm's plan if it experiences distress, an RRP is a detailed look inside the operational stability of your entire organization.

Your firm's RRP will be reviewed by the FDIC and the Federal Reserve Board, not just for the purpose of determining the efficacy of your plan for recovery and possible resolution, but also for the purpose of providing the Federal Reserve enhanced supervision on how your firm identifies internal risk.

Additionally, these reports require visibility into every aspect of your firm, which means your development team will need to gather and incorporate data and information from areas of your business that may not be immediately familiar to them. Lack of executive engagement may lead to a lack of stakeholder engagement, which could lead to the RRP not representing the story you want to tell.

The importance of having the most effective documentation presented within your RRP cannot be overstated. Your RRP will require the full attention of your firm's executive leadership, operating units, LOBs, and legal entities to ensure the most accurate and ideal story is being told.

Beyond executive sponsorship and engagement in RRP, leading firms have executive ownership of the entire process. Compliance presents a rare and meaningful opportunity to significantly strengthen your firm's reporting and oversight infrastructure. Every aspect of your firm's reporting processes and oversight activities will be touched and likely impacted.

Step Three: To outsource or not to outsource—that is the question

Owning the process by which RRP reports are created and maintained is equally as important as owning the information within. Like any new mandate or initiative that puts additional requirements on your staff and resources, it is very tempting to bring in outside resources to assist in document drafting and process development.

Before beginning step three, first consider the following:

- As pointed out in Step One, RRPs tell the story of your business operations and how they will be managed in distress. No one knows your business and its story is better than you.
- As discussed in Step Two, the RRP process touches every area of your business and impacts reporting and oversight across your entire firm.
- Stress testing, as part of your Comprehensive Capital Analysis and Review (CCAR) activity, is also mandated to determine your plan's efficacy and will be conducted in conjunction with recovery plans.
- In order to effectively and efficiently meet the Dodd-Frank mandate requirements and reporting deadlines, your RRP process will need to be systematic and repeatable. Recurring reporting cycles means process improvement is attainable.

Through the first several waves of RRP compliance activity, some SIFIs made the choice to outsource the RRP process. The key lesson from these experiences is the realization that the depth of the content required for the RRP combined with the rigor of the RRP reporting cycle could only be successfully met if firms owned this process themselves.

These firms learned they needed to develop and institute a process that integrates all stakeholders into the RRP process seamlessly and simultaneously in order to produce a far more cohesive and effective RRP report.

As a result, an integrated process would help them avoid common pitfalls and issues that arise:

- By having various portions of RRPs developed in functional silos
- When competing feedback comes from multiple stakeholders
- When review and draft finalization time is compressed

Remember, the goal of the RRP process is to strengthen your firm's risk oversight and management. Owning this entire process ensures that developing your RRPs will have the maximum impact on improving your firm's day-to-day reporting and oversight activity, while optimizing the efficiency of the activity.

Step Four: Breaking down the work—project management style

The amount and depth of information, the formatting required, and the necessary review, feedback, and editing cycles, can quickly overwhelm even the most savvy teams. The RRP utilizes information from all of your LOBs, legal entities, and operating units. A tight calendar, the pace of review, and reporting cycles all add another layer of stress on the RRP activity and team.

After interviewing several firms that have gone through the RRP submission activity, a consistent theme is emerging with regards to managing the process. The RRP activity must be managed with a formal project management approach that includes purposeful and cyclical phases of readiness which culminate in a t-minus, milestone-based schedule for RRP submission.

The project management approach should account for the following major RRP process phases:

- Data collection and synthesis
- Data review and analysis
- Report development and editorial review
- Executive and board review, approval, and submission

These phases generally align with the work breakdown of the RRP. Although, it is important to account for the multiple iterative cycles in the RRP process. Your overall project plan should include the above milestones for each phase, as well as milestones for final board and audit committee review, final edits, and submission. It should also account for time post-submission to reflect on the process and evaluation of potential improvements for the next cycle.

A project management team structure should also be developed. This structure should be headed by a dedicated project manager responsible for the overall RRP project, supported by a project management team responsible for various workflows. This team structure should also be bolstered by an executive sponsor charged with providing overall guidance and support for the RRP project. Inevitably, this structure will spawn multiple workflows, each of which is responsible for a key aspect of your RRP. These workflows are similar, but are not limited, to the major RRP process phases.

Utilizing a formal project management approach—including methodology, project team, executive sponsor, and workflow—will provide a systematic approach that will ensure you are able to develop the best report possible while meeting the regulatory timelines. More importantly, a formal approach will ensure that you maximize the opportunity to improve your reporting and operation oversight and tell your RRP story in the way you intended.

Step Five: Structure your plans, structure your team

The reporting guidelines set forth in Dodd-Frank create a new reporting culture for SIFIs not only in the amount of information being gathered, but also for the frequency with which this in-depth reporting occurs. In order to keep pace with the mandated reporting cycles for both recovery and resolution, it is essential that your recovery and resolution project plans mirror operations and legal entities.

Additionally, the directives given to the SIFIs from the Federal Reserve and FDIC dictate the outline of the RRP documents and supporting materials that they are expecting. The RRP outline should include a table of contents, a rules reference and a map to where in your plan the rule is directly addressed, and an index. Supporting materials will likely be included in appendices. All combined, your RRP outline should map to the directives issued.

In an ideal setting, your firm would be able to establish an RRP document framework with a repository of common, reusable elements such as numbers, dates, words, definitions, and even entire paragraphs of legal copy that can be applied throughout your RRP.

When an item in the repository is updated, all locations where they are referenced are updated instantly and automatically, providing significant time savings. Given the size and extensiveness of these reports, this is an especially critical framework to have in place. This builds confidence that data is accurate and consistent throughout the RRP and supporting documentation.

An organized project plan ultimately results in tight synchronization from outline, the RRP, and supporting documentation. This alignment sets you on a course for successfully complying with the Dodd-Frank rule, as well as ensuring maximum efficiency and effectiveness throughout the process.

Step Six: Change happens—plan for it

At this point, you've got an RRP master plan and schedule. The project team is in place and properly supported at the executive level. The key stakeholders and subject matter experts in your various LOBs, legal entities, and operating groups are engaged and aligned.

Now more than ever it is essential to remember that plans change, and at some point during your RRP process, your plan will need to be adjusted. Keep your team and stakeholders informed of changes, and remember to be flexible when they arise. Planning for the inevitable change ensures that you can keep the RRP activity on track.

Your RRP project plan will have multilevel review at major milestones—including reviews by the executive team, key stakeholders, auditors, regulators, and the board. Being able to manage the changes to your RRP that will likely arise from these reviews is a key factor in ensuring you stick to the schedule established in your master project plan.

Step Seven: Leverage the plan

This massive reporting responsibility occurs in ongoing cycles. It only makes sense to use it as an opportunity to add value to your firm's operations. By carefully designing and executing your reporting plan, you gain a level of collaboration across your firm's operations that can be leveraged in other ways. Being purposeful in your process allows your firm to leverage best practices for other projects across your firm. Finally, a well-developed RRP framework allows you to simply roll that plan forward into the next year.

Strengthening accountability and collaboration across the many areas of your firm is something successful enterprises strive for. There may be some significant challenges and dedicated time required up front. However, establishing a purposeful plan for meeting the new reporting requirements and leveraging a framework that addresses them efficiently will help any firm improve accountability and productivity.

Conclusion

This new reporting reality can be seen as an added regulatory burden, or as the opportunity to improve your firm's overall business operations. The firms that will lead the way in years to come will choose the latter.

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