

Title II

Resolution Strategy Overview



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Overview

- Regulators lacked the necessary authorities during the 2008 financial crisis and were forced to choose between the only two options then available: bankruptcy or bailout.
- Title I – Financial Stability
- Title II – Orderly Liquidation Authority

Title I and Title II

- Under Title II of the Dodd-Frank Act, bankruptcy is the first resolution option in the event of a failure of a systemic financial company.
- To make this prospect achievable, Title I of the act requires that all large, systemic financial companies submit living wills to demonstrate how they would be resolved under the bankruptcy code.
- This will enable both the firms and regulators to understand and rationalize the parts of a SIFI's business that are not suited for bankruptcy and take the necessary steps to address impediments.
- The objective is to have a credible plan demonstrating how resolution under the bankruptcy code would be orderly and not pose systemic risks.

Orderly Liquidation Authority

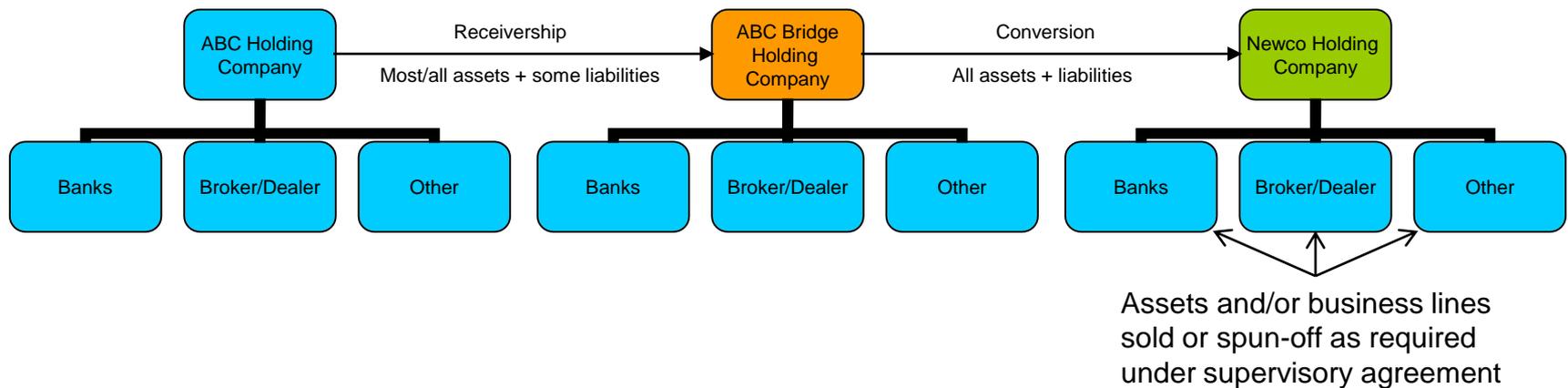
- Similar to Long-Standing FDIC Resolution Authorities
- Special Process to Trigger
- One-Day Stay on Derivatives Netting
- Statutory Minimum Payment
- Liquidity Available Through the Orderly Liquidation Fund
- Statutory Bar on Taxpayer Loss
- Advance Planning is Critical

Resolution Strategy: Single Receivership-Parent Company Entry

- Single entry “top of house” resolution
 - Title II receivership at parent holding company
 - Transfer receivership assets (primarily investments in subsidiaries and loans to subsidiaries) to bridge holding company
 - Subordinated debt and equity remain in receivership, certain other senior unsecured debt and contingent liabilities may or may not pass to bridge holding company
 - Equity solvent subsidiaries remain open
 - Receiver provides funds/guarantees, as necessary, to bridge holding company through the OLF to provide liquidity
 - Bridge holding company serves as “source of strength” recapitalizing subsidiaries, as necessary
 - Bridge holding company will downstream liquidity, as necessary, to subsidiaries through intra-company advances
- In a single receivership model, only the parent company is placed into receivership and, consequently, its creditors will be subject to haircuts. Equity solvent subsidiaries will continue to operate and conduct business. Operational restructuring and any divestitures occur over time through supervisory agreements.

Single Receivership-Parent Company Entry

SIFI Resolution – Corporate Entity Flow



Loss Absorption and Recapitalization

Hypothetical Loss Estimate

- Company's assets decrease to \$810B due to 10% liquidity run and loss on assets
- Estimated Loss Range \$120B-\$135B
 - Market Based Asset Valuations
 - Franchise value estimates for business lines
 - Market Credibility
- Senior Unsecured General Creditors haircut 3%
- Senior Unsecured General Creditors exchange claims for:
 - New debt instruments
 - Convertible debt instruments
 - Equity (preferred/common)
- Former subordinated debt and equity holders could receive either:
 - Call options on financial instruments to be distributed to senior classes
 - Warrants or other contingent value rights

