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DIVISION OF BANKING
SUPERVISION AND REGULATION

SR 14-8

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Revision history:

On October 1, 2025: This letter was revised to remove references to reputational risk.

TO THE OFFICER IN CHARGE OF SUPERVISION
AT EACH FEDERAL RESERVE BANK

SUBJECT: Consolidated Recovery Planning for Certain Large Domestic Bank Holding Companies

Applicability: This guidance applies to eight domestic bank holding companies that may pose elevated risk to U.S. financial stability.

The Federal Reserve is issuing this letter to provide additional guidance regarding recovery planning and recovery plans at certain large bank holding companies. This letter supplements SR letter 12-17/CA letter 12-14, “Consolidated Supervision Framework for Large Financial Institutions.” Recovery planning is central to ensuring the ongoing resiliency of a firm’s consolidated operations and has been identified as a core area of supervisory focus for achieving the objectives of the framework. A key objective is to enhance the resiliency of a firm to adverse developments which, in turn, will lower the probability of its failure or inability to serve as a financial intermediary.

Applicability

This letter applies to eight domestic bank holding companies in the Large Institution Supervision Coordinating Committee (LISCC) portfolio, as referenced by SR 12-17/CA 12-14.¹ The letter does not apply to the other financial institutions in the LISCC, Large Banking Organizations, and Large Foreign Banking Organizations portfolios outlined in SR 12-17/CA 12-14.

¹ These eight companies are (1) Bank of America Corporation; (2) Bank of New York Mellon Corporation, PLC; (3) Citigroup, Inc.; (4) Goldman Sachs Group, Inc.; (5) JPMorgan Chase & Co.; (6) Morgan Stanley; (7) State Street Corporation; and (8) Wells Fargo & Company.

Purpose of Recovery Planning

At the onset of the recent financial crisis, many large financial institutions did not have adequate plans in place to rapidly respond to severe stress. To address this gap in companies' planning and to enhance their safety and soundness, the aforementioned domestic LISC bank holding companies should proactively plan and prepare for such events. The primary goal of such recovery planning is to develop a menu of options that would enable a firm to respond to a wide range of internal and external stresses² and maintain the confidence of market participants without extraordinary governmental support.

A firm is in recovery when it is experiencing or is likely to encounter considerable financial distress but could reasonably return to a position of financial strength if appropriate actions are taken in a timely manner. A firm in recovery has not yet deteriorated to the point where resolution proceedings or bankruptcy are imminent. During this recovery phase, the firm should be working closely with relevant supervisors.

Supervisory Expectations for Recovery Planning

All firms subject to this letter should engage in recovery planning. A firm's recovery planning process should identify a range of options outlining actions that the firm could take to remedy financial weakness and maintain market confidence without extraordinary governmental support. The options should focus on the recovery of the consolidated organization and should be consistent with any obligation to serve as a source of strength to subsidiary insured depository institutions.³

A firm's recovery planning process should identify options that, individually or in the aggregate, provide the firm with a reasonable chance of being able to remedy financial weakness and restore market confidence in the company without extraordinary official sector support. The range of options should, at a minimum, include the possible sale, transfer, or disposal of significant assets, portfolios, legal entities, or business lines.

A firm's recovery options should also be actionable, and impediments to their execution and projected mitigation strategies should be identified in advance. Relevant impediments could include, for example, legal and regulatory preconditions, interconnectivity among the firm's operations, tax consequences, market conditions, and other considerations. To be actionable, recovery options should be executable within a reasonable period of time.

A firm's recovery planning process should identify a comprehensive range of recovery options in order to prepare the firm to respond to a broad range of internal or external stresses of different levels of severity. Further, a firm's recovery planning process should consider the

² Internal stresses are those emerging from within the firm and can include, for example, significant financial losses, fraud, portfolio shocks, accounting and tax issues, or any other firm-specific problems not emerging from outside the firm. External stresses are those emerging from outside the firm and can include both firm-specific stresses such as litigation or counterparty actions and market wide stresses including, for example, severe changes in debt or equity valuations, currency rates, interest rates, or general economic conditions.

³ See 12 CFR 225.4(a).

extreme end of the severity spectrum, where the firm is nearest to entering resolution proceedings, and develop options for recovery from such circumstances. Because the cause of future economic stress is unpredictable, a firm's recovery planning process should identify a range of options that allow it to execute strategies in a variety of market and economic conditions, including in an environment where the firm is unable to access capital markets or accrete capital through retained earnings.

Firms subject to this letter should test the effectiveness of their recovery options under a range of internal and external stresses. In developing their options, these firms should also consider potential consequences for U.S. financial stability of executing each option, taking into consideration impacts on counterparties, creditors, clients, depositors, and markets for specific assets.

To be effective, recovery planning should be integrated into a firm's corporate governance and operating processes. Such integration is essential for timely recognition of financial distress, identification of recovery triggers, and identification of actionable and comprehensive recovery options. Recovery planning should be part of business-as-usual activities, including firm-wide risk-management processes. A firm's menu of recovery options should be kept current in order to position the firm to respond to challenges as they arise. Recovery planning should be complementary to, and linked with, existing contingency, strategic, and resolution planning efforts to ensure that the firm is prepared to recognize and respond to both financial and operational weakness. Recovery planning should also take into account potential options from existing financial contingency plans, such as the firm's contingency funding plan and capital policy and any other relevant contingency plan.

Senior management should be responsible for this integration and for ongoing administration of the recovery planning process. Successful integration of recovery planning into the existing firm processes should result in the following:

- Timely recognition of financial weakness by the firm's management and analysis of the underlying cause of the weakness.
- Timely discussion by management about the ability of the firm to respond to financial weakness and to address the long-term viability of the firm.
- Timely notification of identified weakness to the Federal Reserve and other relevant supervisors.
- Timely escalation by management of identified weaknesses and planned responses to the firm's board of directors.
- Timely implementation of options or other remediating actions in a stress situation.

At a minimum, the firm's internal governance should lead to a response from the firm prior to the imposition of remedial actions by the Federal Reserve or other responsible supervisors.⁴ A firm should aim to have the ability to take timely action to address signs of weakness or risk before the onset of significant financial deterioration.

⁴ For example, the Federal Reserve and other banking regulators are required to take prompt corrective action to resolve problems at insured depository institutions when capital measures fall below certain minimum levels. See 12 U.S.C. 1831o.

For a recovery planning process to be effective, a firm should have a comprehensive understanding of the entire organization and certain baseline capabilities.⁵ That understanding should include the operational and financial linkages among a firm's business lines, material entities, and critical operations.⁶ Additionally, information systems should be robust enough to produce the required data and information needed to execute recovery planning options.

A firm should document its recovery options, as well as internal governance for developing, testing, updating, and implementing these options in a recovery plan. A firm should review and update its recovery plan at least annually. At a minimum, such a review should analyze whether there have been changes to the firm's structure or to external conditions that would materially impact the execution of recovery options in the plan. The firm's recovery plan should be provided to the Federal Reserve annually.

Role of the Board of Directors

The firm's board of directors is responsible for oversight of the firm. This should include oversight of the firm's recovery planning process. The board, or a designated committee thereof, should focus this oversight on the firm's ability to effectively identify and implement recovery options and oversee management's remediation of weaknesses identified in the firm's processes.

Elements of a Recovery Plan

The level of detail and analysis in a recovery plan should vary based on the firm's risk profile and scope of operations. A recovery plan should address, at a minimum, the following elements:

- *Internal Governance*: the recovery plan should describe the governance framework for recovery planning, including a description of how the plan is developed, approved, and updated. In addition, the plan should describe:
 - Triggers that indicate when a firm enters recovery along with related escalation procedures for senior management action and notification of board of directors.
 - The linkage of the firm's recovery planning processes with existing efforts for contingency, strategic, and resolution planning.
- *Recovery Options*: the recovery plan should detail options designed to remedy financial weakness and maintain market confidence in the firm without extraordinary governmental support. The options in the plan should be actionable and comprehensive, and should include:
 - Options to conserve or restore liquidity and capital.

⁵ SR letter 14-1, "Heightened Supervisory Expectations for Recovery and Resolution Preparedness for Certain Large Bank Holding Companies - Supplemental Guidance on Consolidated Supervision Framework for Large Financial Institutions."

⁶ Critical operations are those operations (including associated operations, services, functions, and support) that, if they were to fail or be discontinued, could pose a threat to the financial stability of the United States. Such operations can be identified by the Federal Reserve or self-identified by the firm.

- Opportunities and strategies to de-risk and de-lever the firm.
- Options contemplating the sale, transfer, or disposal of significant assets, portfolios, legal entities, or business lines.
- Options that may permanently change the firm's structure or business strategy and that may be contemplated only when the firm is nearest to entering resolution proceedings.
- Implementation of other contingency plans as appropriate.
- *Execution Plan:* for each recovery option listed, the recovery plan should describe the steps necessary to execute the option. Among other considerations, the description should include:
 - The identity and position of the senior management officials of the company who are primarily responsible for overseeing the execution of the recovery option.
 - An estimated time frame for implementation.
 - A description of any impediments to execution of the option and mitigation strategies to address those impediments.
 - A description of the assumptions underpinning the option.
 - A plan describing the methods and forms of communication with internal, external, and regulatory stakeholders.
- *Impact Assessment:* the recovery plan should holistically consider and describe the expected impact of individual recovery options. At a minimum, this should include the following for each recovery option:
 - A financial impact assessment that describes the impact of executing the option on the firm's capital, liquidity, and balance sheet.
 - A business impact assessment that describes the effect of executing the option on business lines and material entities.
 - A critical operation impact assessment that describes how execution of the option may affect the provision of any critical operation.
 - An operational impact assessment and contingency plan that explains how operations can be maintained if the option is implemented; such an analysis should address internal operations (for example, shared services, IT requirements, and human resources) and access to market infrastructure (for example, clearing and settlement facilities and payment systems).

Federal Reserve Banks should distribute this letter to bank holding companies subject to this guidance and to appropriate supervisory staff. Questions regarding this guidance may be directed to Tudor Rus, Senior Supervisory Financial Analyst, at (202) 475-6359, and Alfonso

Ventoso, Manager, at (202) 475-6366. In addition, questions may be sent via the Federal Reserve Board's public website.⁷

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Cross-References:

- SR 14-1, "Heightened Supervisory Expectations for Recovery and Resolution Preparedness for Certain Large Bank Holding Companies – Supplemental Guidance on Consolidated Supervision Framework for Large Financial Institutions (SR letter 12-17/CA letter 12-14)"
- SR 12-17/CA 12-14, "Consolidated Supervision Framework for Large Financial Institutions"

⁷ <http://www.federalreserve.gov/apps/contactus/feedback.aspx>.