



# Does Being More Resolvable Make a Firm More Resilient?

– It depends!

**Steve Strongin**

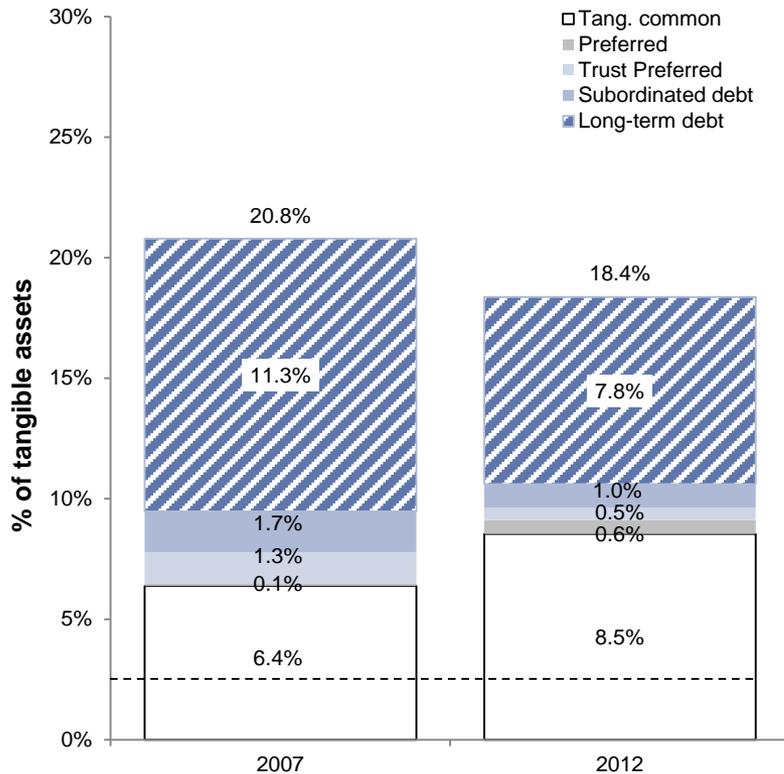
October 18, 2013

Goldman, Sachs & Co.

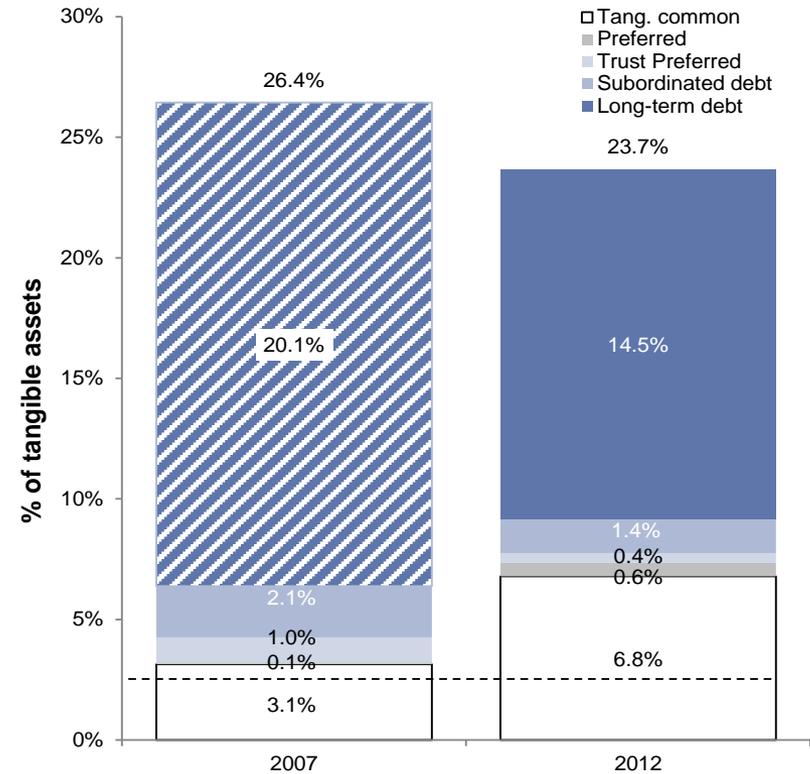
# Increased loss absorbency



### All US non G-SIFI Banks



### US G-SIFI Banks



Capital not typically seen as loss-absorbing (Dodd-Frank's Orderly Liquidation Authority is expected to apply only to the largest banks)

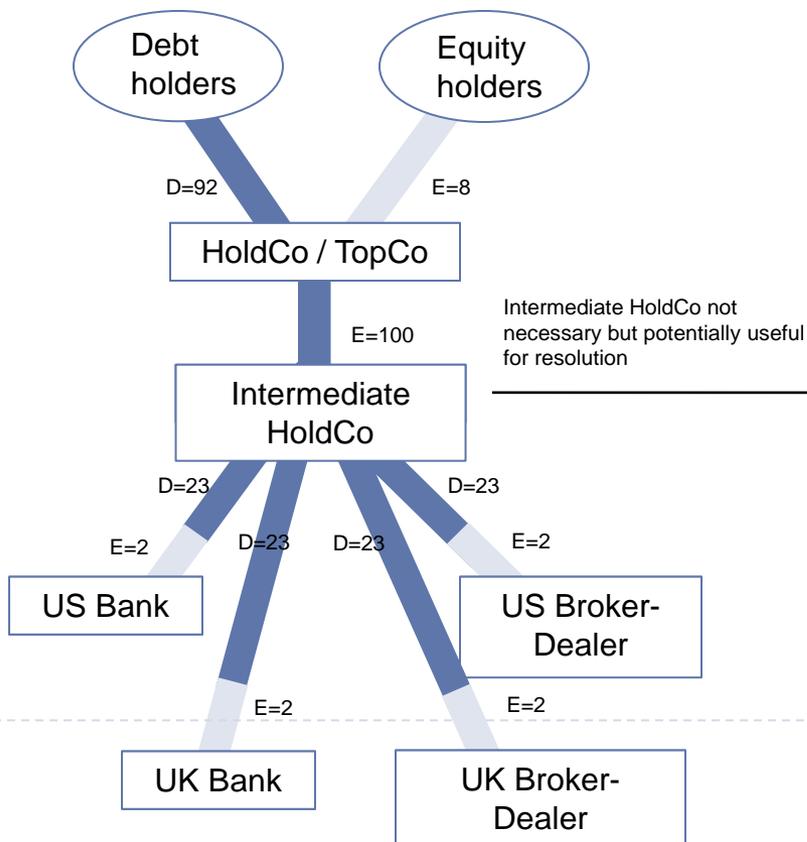
----- CCAR 2012 losses

Note: Aggregate regulatory financial data for all US bank holding companies. Long-term debt is defined as all other borrowed money, which is largely senior debt. G-SIFI banks include BAC, BK, C, GS, JPM, MS, STT and WFC.

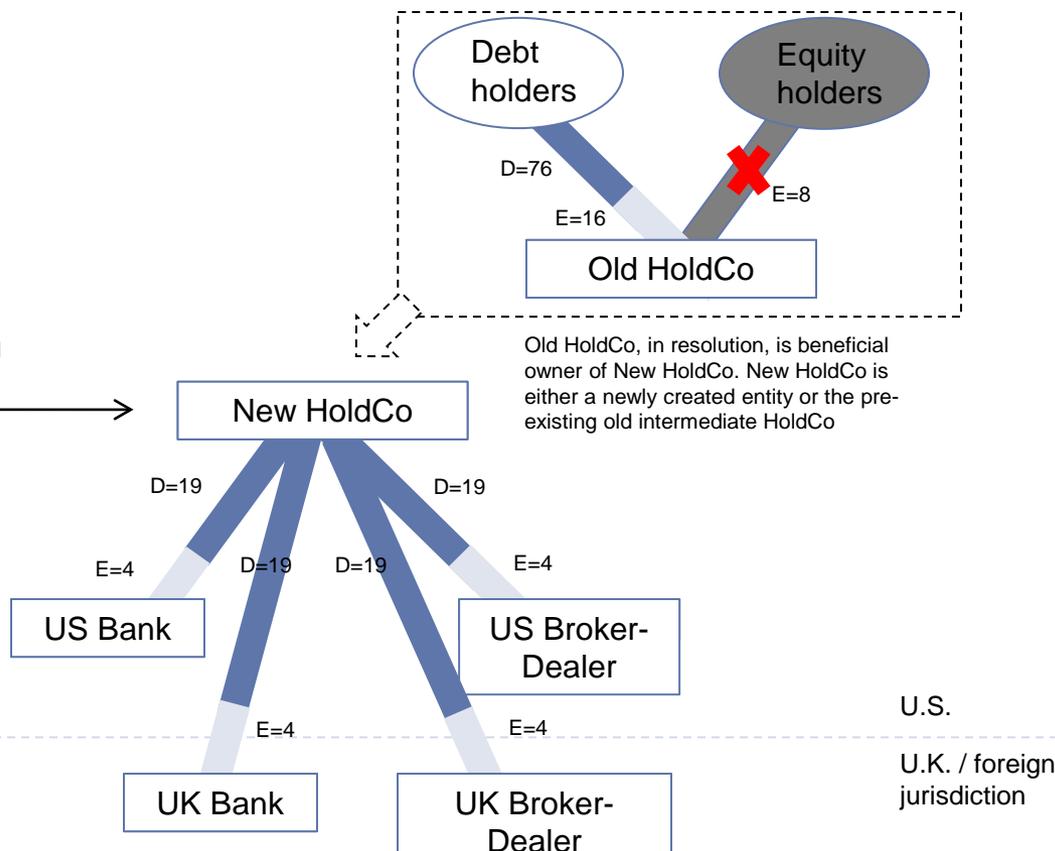
Source: Federal Reserve, SNL Financial, Goldman Sachs Global Investment Research.

# The economic power of Single-Point-of-Entry resolution

## Pre-resolution structure



## Post-resolution structure



- Structure should be constrained to prevent “double leverage”
- Assumes all material operating companies sustain losses of \$2, wiping out their equity

- HoldCo equity is written down to zero (old equity holders could receive warrants for future value) and sufficient long-term debt is converted to equity to ‘super-capitalize’ the New HoldCo (roughly 2X regulatory minimum)
- New HoldCo recapitalizes material operating entities by converting intercompany loans to equity, also at a ‘supercapitalized’ level
- Material operating entities continue operations without entering bankruptcy or resolution

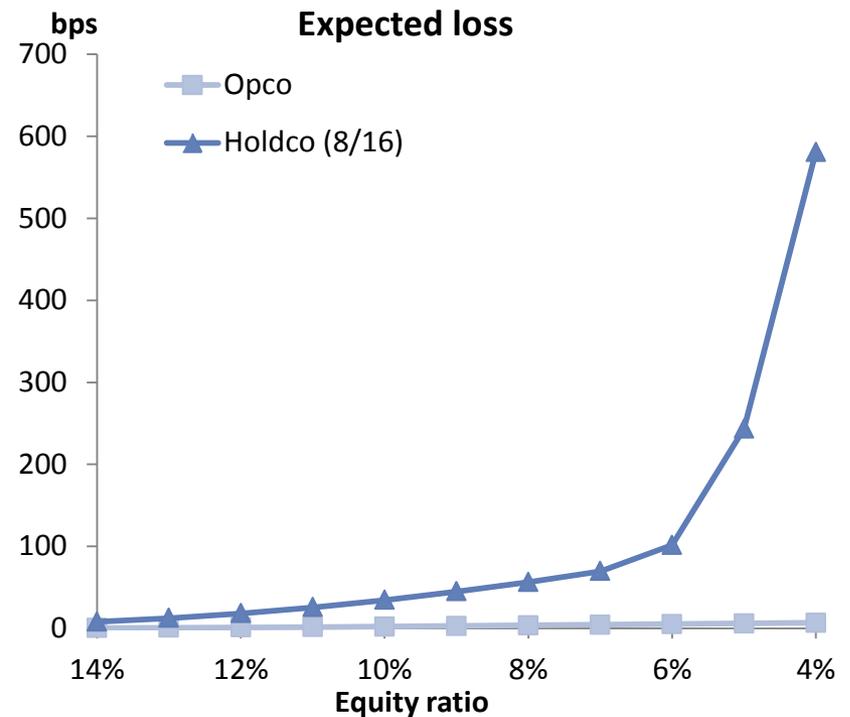
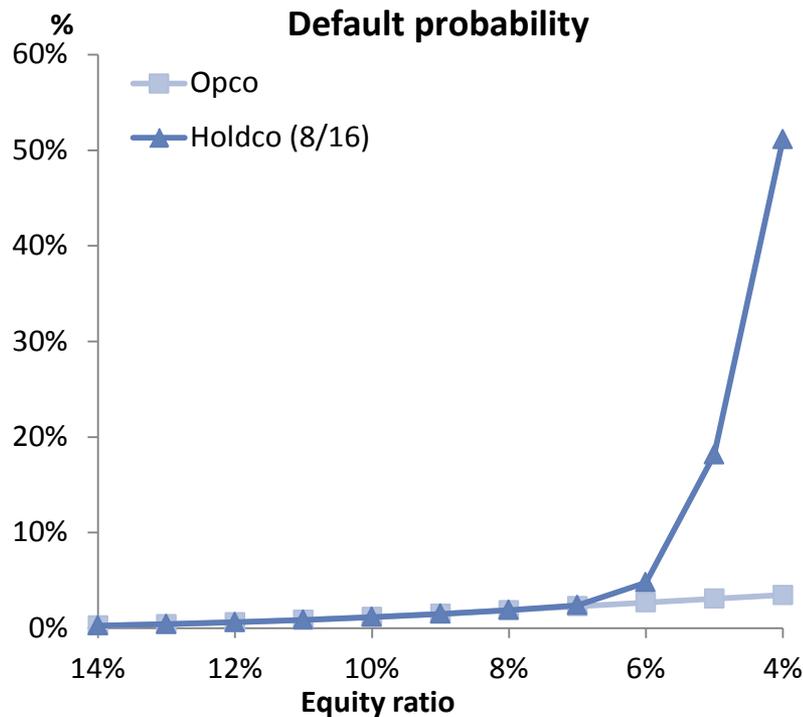
Source: Goldman Sachs Global Investment Research.

# When the market believes...



OpCo probability of default remains low in a severe stress scenario, even as HoldCo probability of default rises sharply

OpCo expected losses remain close to zero, even in a severe stress scenario



Source: Goldman Sachs Global Investment Research.

# Disclosure Appendix

## October 16, 2013



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