**Bank Recovery and Resolution Directive**: the European Union regulation containing resolution stay rules for entities in the EU.

**Bilaterally Amended QFC**: counterparties that do not adhere to the ISDA 2018 US Resolution Stay Protocol can instead enter into a bilaterally amended QFC — which follows standard industry conventions — to comply with the US stay rules.

**Bridge Bank**: a solvent and well-capitalized trading entity to which counterparties’ QFCs and other trading agreements can be transferred from a failing GSIB.

**Cross-Default Rights**: cross-default rights allow a counterparty to terminate a contract if a parent or other affiliate of the direct counterparty defaults on another obligation.

QFCs commonly contain cross-default rights. As an example of a cross-default, if a GSIB holding company was put into resolution, a counterparty could terminate a contract or trade with a broker-dealer subsidiary of that GSIB — even though the broker-dealer is not in default and is continuing to meet all of its obligations. The US stay rules would suspend the application of such cross-default rights from QFCs.
Default and Transfer Rights: the right to terminate or transfer a trade to another entity in the event of a counterparty’s failure. The US stay rules prevent — or stay — counterparties from exercising any default rights that would allow them to terminate certain in-scope contracts with a GSIB that is failing or likely to fail and lifts any transfer restrictions of such contracts.

Global Systemically Important Bank (GSIB): a category of multinational financial institution that has been identified by global regulators to be of such size, complexity and interconnectedness, that its failure would have consequences for the global financial system.

In-Scope Qualified Financial Contract: QFCs in-scope for the US stay rules are agreements that contain provisions that enable counterparties to exercise default and transfer rights in the event a GSIB (or any of its subsidiaries or other affiliates) is failing or likely to fail.

ISDA 2018 US Resolution Stay Protocol: a protocol developed by the International Swaps and Derivatives Association that enables parties to change the terms of their QFCs (not limited to ISDA Master Agreements) to stay their default and transfer rights. Once both counterparties have adhered to the protocol, their QFCs are deemed to be in compliance with the US stay rules.

Orderly Wind Down: the resolution of a failing GSIB that enables the institution to be wound down by regulators in such a way that the adverse impact on capital markets and the global economy are minimized.

Qualified Financial Contract: the definition of QFC is very broad and includes OTC and listed derivatives, swaps, FX transactions, physical commodity transactions, repo, stock loans, prime brokerage contracts as well as a wide variety of securities contracts, including those which provide for extensions of credit in the clearance or settlement of securities transactions (such as custody agreements).
Special Resolution: various powers and authorities given to financial regulators to assume control of failing GSIBs to facilitate an orderly wind down. Rather than letting a bank go through a regular bankruptcy — which could adversely impact financial markets and the wider economy — special resolution authority enables regulators to transfer trades from the insolvent GSIB into a healthy, solvent entity known as a bridge bank.

Stay: a temporary delay during which counterparties are suspended from exercising their default and transfer rights on trades facing a GSIB in insolvency or special resolution. Under the US stay rules, a stay, generally until 5pm Eastern Time on the next business day, can be enforced on the termination of contracts.

Stay Rules: a series of rules being implemented in jurisdictions around the world which require temporary stays to be contractually recognized in trading agreements which contain default and transfer rights for the purposes of enabling the orderly wind down of failing GSIBs.

Validation Exercise: the internal program being undertaken internally within BNY Mellon to determine the number of in-scope QFC contracts that require amendment and identify the counterparties to those contracts.
independent professional advice, the merits, terms, conditions and risks associated with the information provided herein, or activity arising from or related to the information provided herein.

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