Proposal: 1786 (AG44) Resolution Related Resource for Large Banking Organizations

Description:

Comment ID: 142565

From: Amanda Reaman

Proposal: 1786 (AG44) Resolution Related Resource for Large Banking Organizations

Subject: Resolution-Related Resource Requirement for Large Banking Organizations

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Comments:

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I disagree with the proposal entitled "Resolution-Related Resource Requirements for Large Banking Organizations" Docket No. R-1786 and RIN 7100-AG44 / 3064-AF86. Banks at risk of bankruptcy should not be required to sell long term debt (e.g., bonds) for the purpose of absorbing losses. (See, e.g., "the agencies are considering the advantages and disadvantages of requiring large banking organizations to maintain long-term debt capable of absorbing losses in resolution.") This proposal is a malicious self-serving attempt to shift predictable ("ex ante") costs to resolve the bankruptcy of a large banking organization from the FDIC's Depository Insurance Fund to unsuspecting investors. (See, e.g., "availability of this loss-absorbing resource at the insured depository institution would be less costly to the DIF than a payout of insured deposits" and "[w]here it is necessary to bail in the LTD, the value of the debtholder's note may be significantly or completely depleted."] And, how much time does the Federal Reserve and FDIC need "to consider the impact on future financial stability of marketing a failed institution in whole or in parts"? Has the Federal Reserve or FDIC successfully marketed a failed institution, in whole or in parts? "During the global financial crisis, there were limited and undesirable options available to the FDIC for resolving the largest failed IDIs" with limited improvement more than a decade later as the FDIC continues to seek "improve[d] optionality in resolving a large banking organization or its insured depository institution". Even the most naive should realize that marketing a failed institution erodes trust in the financial system. Trust that has already been greatly eroded by the handling of the 2008 global financial crisis where Too Big To Fail banks were bailed out by taxpayers with few, if any, consequences. Have the Federal Reserve and FDIC considered the impact of proposing and requiring failing banking institutions to knowingly sell junk bonds for the purpose of absorbing losses? The Federal Reserve and FDIC should consider the impact on a fiat currency issued by an untrustworthy Federal Reserve backed by a self-serving FDIC in addition to the roles the Federal Reserve and FDIC may have in future books and movies about the next financial crisis.

Failure must always be an optionfor banks and other financial organizations. With the context of "https://www.newyorkfed.org/medialibrary/media/research/epr/96v02n2/9610dems.pdf"
Banks with Something to Lose: The Disciplinary Role of Franchise Value" (1996), insolvency and loss of franchise value no longer counterbalance against risk when institutions are not allowed to fail. When failure is not an option, there is no downside to excessive risk taking as they have nothing to lose and all to gain. Eliminating failure as an option naturally promotes excessive risk taking that increases risks to financial stability. No financial institution should be Too Big To Fail. Failure must always be an option. The Federal Reserve and FDIC are jointly proposing that large (Too Big To Fail) banks at risk of failing be required to sell bonds (typically marketed to pensions and risk averse investors saving for retirement) to absorb losses to reduce payouts by the FDIC Deposit Insurance Fund. How do you feel about someone screwing over retirements just so the FDIC insurance fund can pay out less?

Privatizing profits and socializing losses needs to stop. Shifting the burden for failed banking institutions to taxpayers (and especially retirement funds) by fraudulently selling crap bonds. I want criminal penalties. Remember, only one guy went to jail in the US as a result of the global financial crisis -- for mismarking bond prices.

Why is there a presumption that a failing institution can "preserve franchise value" (aka stay profitable) by raising funds selling long term debt? A failing institution is at risk because of poor financial and risk management. Why does the Fed and FDIC assume funds raised would not be similarly mis-managed (creating an even bigger problem)?

Why is "preserving franchise value" for a failed institution a priority? Failure is an option. https://twitter.com/donttrythis/status/815033997122097152?lang=en" Adam Savage of MythBusters on Twitter

https://www.fdic.gov/about/what-we-do/index.html The mission of the Federal Deposit Insurance Corporation (FDIC) is to maintain stability and public confidence in the nation's financial system. This FDIC proposal throwing investors under the bus to absorb losses doesn't inspire much confidence. As a joint proposal with the Federal Reserve, it just gets worse.

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