

From: Christian McDewell  
Proposal: 1438 (RIN 7100-AD86) - Reg. YY Enhanced Prudential Standards and Early Remediation for Covered  
Subject: Reg. YY

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Comments:

Public Comments on Enhanced Prudential Standards and Early Remediation Requirements for Covered Companies:

Submitter Info:

First Name: Christian  
Last Name: McDewell

Comment:

The stress testing as prescribed in sections 165(i)(1) and 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protections Act, specifically the company-run stress tests as mandated semi-annually to companies with consolidated assets of over 50 billion dollars and annually to companies with consolidated assets of 10 billion or greater, creates a significant concern to the consumer of financial products. Perceived security can be a dangerous thing, as was observed in the financial meltdown, the idea of moral hazard can create significant incentive for people to deal with systems that they do not fully understand, and as such, they may often consent to deals, the details of which they are not truly informed. It needs not be said that credit ratings industry played a large role in the crisis, and certainly, it would be undesirable to all parties involved that the federal reserve fill the role of false security blanket leading up to the next disaster. This, however, is not an indictment of the system of stress testing in and of itself. Merely, it is a recommendation that the proposed rule charging the federal reserve with the task of implementing and regulating the performance of these stress tests should, in addition to requiring publication of company-run stress tests and overview by the federal reserve, also include requirements for the public availability of accurate and understandable summaries of these published stress tests such that they will not become embroiled in an entirely new systemic failure.