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

Description:

Comment ID: 142543

From: Jason Ross

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

Subject: Resolution-Related Resource Requirement for Large Banking Organizations

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Comments:

NONCONFIDENTIAL // EXTERNAL

A copy/paste submission as someone else typed it better than I could but I have read it and agree with it's content:

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 option for banks and other financial organizations. With the context of "Banks with Something to Lose: The Disciplinary Role of Franchise Value[https:]" (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.

...and there it is. I am opposed to the proposal.

Thank you for listening