Remarks by

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at the

Korea Deposit Insurance Corporation

20th Anniversary Celebration

Seoul, Korea

July 28, 2016

Good afternoon. It is a pleasure and an honor for me to speak with you today on the occasion of the 20th anniversary celebration of the Korean Deposit Insurance Corporation (KDIC). I congratulate Chairman Gwak and all of you on achieving this important milestone, and doing so with such distinction in serving the people of Korea.

The establishment of KDIC 20 years ago was critically important for Korea's ability to respond to the crises that subsequently threatened its financial system. Korea was able to contain the fallout from the Asian financial crisis of 1997 and the global crisis of 2008-09 in no small part because it already had in place a strong deposit insurance program operated by KDIC.

Ten years ago I had the privilege of representing the FDIC and speaking here in connection with the 10^{th} anniversary celebration of the KDIC. That proves two things: First, I have been on the board of the FDIC for a long time; and second, the relationship between the FDIC and KDIC is a strong and enduring one.

Indeed, I feel that the connection between our institutions has grown stronger with each passing year. Our two organizations have worked very closely and successfully together through the International Association of Deposit Insurers (IADI) to strengthen deposit insurance systems around the world.

Bilaterally, we have shared our expertise in a number of ways. We at the FDIC are very pleased to have hosted KDIC staff continuously since 2008 through a secondment program that we regard as extremely valuable. Our two organizations also maintain ongoing consultations on many matters of mutual interest, most recently on recovery and resolution planning for systemically important financial institutions. I am also pleased to announce today that we are planning to develop memoranda of understanding on deposit insurance and resolution.

As our respective mandates have broadened and become more complex, our cooperative efforts have expanded commensurately.

Both KDIC and the FDIC are very different organizations today than they were when I visited 10 years ago. For the KDIC's part, in addition to greatly expanding its deposit insurance powers since 2006, including a target fund system since 2009 and differential premiums in 2014.

KDIC also has become a global leader in technical cooperation and assistance, both through IADI by assuming key leadership roles for the association, and bilaterally, through its robust international program for knowledge-sharing.

In my view, Chairman Gwak and KDIC are to be commended for their forward-looking efforts to share deposit insurance expertise with the world. If the last crisis taught us anything, it was that effective deposit insurance programs are essential to maintaining financial stability. KDIC is providing a service of great value to all of us in doing its part as we work to strengthen depositor protections worldwide.

As for the FDIC, we, too, are a different organization today than we were 10 years ago. I have been asked to speak about our role in addressing the recent financial crisis. I will do that, but if I may I would like to begin by going back to the origins of the FDIC and its history leading up to the recent crisis because I believe it provides a valuable context for the role the FDIC plays today. It is important to understand that the FDIC as we know it today is the product of three financial crises in the United States – the Depression of the 1930s, the thrift crisis in the United States in the late 1980s and early 1990s, and the recent financial crisis of 2008-2009.

Origins of the FDIC

As you may know, the FDIC was established in 1933, in the depths of the Great Depression in the United States, and in response to a major banking crisis.

When President Franklin Roosevelt was inaugurated in March 1933, more than 4,000 banks had failed in the United States in January and February. The first urgent issue the president had to confront after being inaugurated was the banking crisis. The initial response was to declare a "banking holiday." The government closed all the banks in the United States and sent examiners through to determine which banks were solvent. As their solvency was determined, the banks would be allowed to reopen. The president's first fireside chat was about the banking crisis, in which he gave the public his personal assurance that every bank that would be allowed to reopen was safe and sound, and that it was better for people to put their money in the bank than under the mattress.

Yet that was still insufficient to restore public confidence in the banking system. Congress then proposed an idea that had been kicking around for a number of years to establish a national system of deposit insurance under which the government would ultimately guarantee people's deposits in the banks. It was a controversial provision, but it was ultimately included in the Banking Act of 1993, which was signed into law by the president in June.

The FDIC opened its doors in September 1933 and within several months began to have a significant impact on the banking crisis. The number of bank failures declined dramatically and people began to put money back in the banks.

From its inception, the FDIC was given both a broad mandate and institutional independence. It was responsible for establishing and managing the deposit insurance fund for all national and state-chartered banks. The FDIC collected assessments on the industry to maintain the fund, but was also given authority to borrow from the U.S. Treasury if the fund was depleted. It was also responsible for managing the resolution of the failure of all federally insured national and state-chartered banks. In addition, it was given responsibility for being the lead federal supervisor for state-chartered banks that were not members of the Federal Reserve System, which constituted the majority of state-chartered banks in the United States.

This framework of a broad institutional mandate for deposit insurance, resolution, and supervision, coupled with an independent board and independent funding, gave the FDIC a strong foundation to establish itself within the framework of financial regulation in the United States and carry out its mission of maintaining public confidence in the financial system.

Thrift Crisis of the 1980s and 1990s

As you may know, the United States had a significant financial crisis in the late 1980s and early 1990s when the thrift industry – the savings and loans that made home mortgages – collapsed. Hundreds of institutions failed, the thrift regulator and its deposit insurance fund for thrifts were closed. A new thrift regulator was created and the responsibility for deposit insurance for thrift institutions was transferred to the FDIC. The FDIC was also given expanded authority to conduct backup examinations of any financial institution it insured. Further, to ensure that troubled institutions were closed in a timely way, a system of prompt corrective action was established under which a federally insured institution was required to be closed when its capital fell below a critically undercapitalized standard of 2 percent.

The thrift crisis thus resulted in the FDIC receiving significantly expanded authorities, which proved important in responding to the recent financial crisis in 2008-2009.

Financial Crisis of 2008-2009

The recent financial crisis of 2008-2009 is regarded as the most severe financial crisis in the United States since the Great Depression. In my view it was the most severe financial crisis because the financial system is a much larger part of the economy in the United States today than it was in the 1930s, and far more integrated internationally.

For the FDIC, it presented multiple challenges.

More than 500 banks failed in the United States since 2008. The FDIC had to manage the failure of all of those institutions, utilizing a loss-share strategy under which the FDIC covered a portion of the losses on assets assumed by a healthy institution that acquired the assets of a failed bank in return for the healthy institution acquiring the assets and taking responsibility for their management. In this way, the FDIC was able to avoid assuming all the assets of the failed institutions and the large governmental management challenge that would have presented.

The Deposit Insurance Fund of the FDIC was depleted by all the failed banks and at its low point was more than $20 billion in the red. The FDIC had to impose a special assessment on the industry to bring in liquidity to manage all the failed banks. When the funds from the special assessment proved insufficient, the FDIC presented the industry with the choice of making a 3-

year prepayment of assessments to bring $40 billion of liquidity in the fund, or have the FDIC borrow from the Treasury as it is authorized to do. Interestingly, the industry supported the prepayment of assessments to avoid the precedent of Treasury borrowing.

In addition, the FDIC had an enormous supervisory challenge as hundreds of the banks it supervised experienced severe stress.

To deal with these challenges, the FDIC had to significantly expand its work force from 4,500 at the outset of the crisis to approximately 8,000 at the peak. Most of the new hiring was done through 2-year, term contracts, not career appointments, so that the people hired understood it was a short-term arrangement made necessary by the crisis.

Beyond carrying out its traditional responsibilities for deposit insurance, resolution, and supervision, the FDIC implemented two programs pursuant to an emergency authority it had never previously utilized for financial stability purposes. The Temporary Liquidity Guarantee Program made available an FDIC guaranty on the unsecured debt of all the banks in the United States. This program was established to facilitate interbank lending in particular that had dried up during the crisis and caused severe liquidity strains. Using the emergency authority, the FDIC also temporarily increased deposit insurance coverage from $100,000 to $250,000 per account, and provided unlimited coverage on non-interest bearing transaction accounts to address liquidity strains, particularly at smaller institutions.

Taken together, through carrying out its traditional responsibilities, as well as implementing the emergency programs, the FDIC, along with the Federal Reserve and the Treasury Department, played a leading role in maintaining financial stability in the United States during this near–catastrophic crisis.

Post-Crisis Reforms

In the aftermath of the crisis, Congress enacted the Dodd-Frank Act, which authorized a number of reforms relating to capital and liquidity standards, derivatives, and mortgage regulation. In addition, several important reforms were enacted that specifically expanded the authorities of the FDIC.

These reforms included providing the FDIC greater flexibility in managing the deposit insurance fund. For example, the law establishes a minimum reserve ratio of 1.35 percent, but allows the FDIC to build up the deposit insurance fund above that level to provide a greater cushion for the fund in a future stressed environment such as we saw in 2008-2009.

The crisis also demonstrated that large, complex financial institutions *can* get into difficulty. Lacking the necessary authorities to manage the orderly failure of a large, complex financial institution, policymakers were forced to choose between two bad options: taxpayer bailouts or financial collapse.

The Dodd-Frank Act provided, among other things, critical new authorities to manage the orderly failure of a systemically important financial institution.

Bankruptcy is the statutory first option under the Dodd-Frank framework. The act requires the largest bank holding companies and designated nonbank financial companies to prepare resolution plans, also referred to as "living wills." These living wills must demonstrate that the firm could be resolved under bankruptcy without severe adverse consequences for the financial system or the U.S. economy.

In the event that bankruptcy would not allow for an orderly resolution of a G-SIFI, Title II of the Dodd-Frank Act created the Orderly Liquidation Authority. This authority ensures that policymakers will not be faced with the same poor choices they faced in 2008. The Orderly Liquidation Authority provides the FDIC with several tools that are intended to enable the FDIC to carry out the process of winding down and liquidating a firm, while ensuring that shareholders, creditors, and culpable management are held accountable and that taxpayers do not bear losses.

Given the extensive international operations of large, systemically important financial institutions, the FDIC has actively engaged with the key foreign jurisdictions in which these firms do business. These jurisdictions include the United Kingdom, the European Banking Union, Switzerland, and Japan. Each of these jurisdictions has enacted legislation providing the kind of new resolution authorities that the Dodd-Frank Act has provided in the United States.

In the years since enactment of Dodd-Frank, there has been significant progress in the resolution plans of firms and in developing the operational capabilities to carry out a resolution if needed. Earlier this year, the FDIC and the Federal Reserve completed a careful review of the resolution plans submitted by eight of the largest, most systemically important U.S. financial institutions. In April, the agencies jointly determined that five of these plans were not credible or would not facilitate an orderly resolution under the Bankruptcy Code. As a result, the agencies issued joint notices to these five firms detailing deficiencies in their plans that must be addressed by October 1st, and shortcomings that must be addressed by their next full plan submission in July 2017. The agencies also identified shortcomings in the remaining three firms' plans that must also be addressed by their next full submission in July 2017.

To provide for transparency of the process, the FDIC and the Federal Reserve released for public review both the evaluation framework used to assess the resolution plans, including a firm-by-firm summary of the results, and the guidance provided to the firms for the submission of their next full plans. The criteria used to evaluate the plans included capital, liquidity, derivatives, legal-entity rationalization, maintenance of critical services, and governance.

FDIC and Federal Reserve staff engagement with the firms is intensive and ongoing as the firms prepare for their next submission. For the firms whose plans were determined to be not credible, failure to satisfactorily address the identified deficiencies in the October 1 submission could result in the imposition of more stringent capital, liquidity, or leverage requirements, or restrictions on the growth, activities, or operations of the firms.

The FDIC is committed to carrying out the statutory mandate that systemically important financial institutions demonstrate a clear path to an orderly failure under bankruptcy at no cost to taxpayers. The living will determinations made earlier this year are a significant step toward achieving that goal.

The living wills required under Title I of the Dodd-Frank Act, combined with the Orderly Liquidation Authority under Title II, significantly enhance the prospect that a large, systemically important financial institution could fail in an orderly way, that the shareholders would be wiped out, the creditors take losses in accordance with the losses of the firm, that culpable management would be replaced, and that the firm itself would be wound down and liquidated.

Conclusion

In conclusion, the FDIC has been able to play an important role in maintaining public confidence and stability in the U.S. financial system since its establishment more than 80 years ago because of its broad mandate for deposit insurance, resolution, and bank supervision, its independent board and funding, and the experience gained from a deep history.

On this occasion, of the 20th anniversary of the KDIC, I would like to underscore the importance the FDIC places on our close working relationship, and our commitment to continuing and deepening that relationship going forward.