

Statement from FDIC Vice Chairman Hoenig on Congressional moves to repeal swaps push-out requirements

In 2008 we learned the economic consequences of conducting derivatives trading in taxpayer-insured banks. Section 716 of Dodd-Frank is an important step in pushing the trading activity out to where it should be conducted: in the open market, outside of taxpayer-backed commercial banks. It is illogical to repeal the 716 push out requirement. In fact, under 716, most derivatives -- almost 95% -- would not be pushed out of the bank. That is because interest rate swaps, foreign exchange and cleared credit derivatives can remain within the bank. In addition, derivatives that are used for hedging can remain in the bank. The main items that must be pushed out under 716 are uncleared credit default swaps (CDS), equity derivatives and commodities derivatives. These are, in relative terms, much smaller and where the greater risks and capital subsidy is most useful to these banking firms.

Derivatives that are pushed out by 716 are only removed from the taxpayer support and the accompanying subsidy of insured deposit funding -- they will continue to exist and to serve end users. In fact, most of these firms have broker-dealer affiliates where they can place these activities, but these affiliates are not as richly subsidized, which helps explain these firms' resistance to 716 push out.