Statement of Thomas M. Hoenig, Vice Chairman of the FDIC
On the Final Rule to Establish Margin and Capital Requirements for Covered Swap Entities
October 22, 2015

I support the final rule to establish margin and capital requirements for covered swap entities. The rule, as staff note in the memorandum and in their presentation, requires minimum margin and capital requirements for swaps of an insured depository institution. Because the FDIC "backstops" these institutions and their activities, effectively providing a generous subsidy, the rule is important in mitigating risk to the firm and in promoting greater overall financial stability. It also mitigates the financial exposure to the FDIC should an affiliate of the bank, as a counterparty to the bank, fail and be resolved in bankruptcy.

While the system overall would have been best served if banks posted as well as collected margin with their affiliates, much is accomplished with the requirement that the insured bank collect margin. I also recognize that other agencies with jurisdiction over nonbank affiliates could require these firms to collect margin as they finalize their rules on this matter.

Finally, the final rule has been modified extensively since first proposed, based importantly on industry comments. In my judgment, therefore, the final rule does a good job of balancing the market's need to compete and take risk, with the broader goal of managing risk and assuring financial stability.

Thomas M. Hoenig is the Vice Chairman of the FDIC and the former President of the Federal Reserve Bank of Kansas City. His research and other material can be found at *http://www.fdic.gov/about/learn/board/hoenig/*