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Attention: Comments
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Title: *"*Company-Run Annual Stress Test Reporting Template and Documentation for Covered Institutions with Total Consolidated Assets of $50 Billion or More under the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Document guidance:
Preface, p 1; **Comments tracking the Request for Comment**: p7; **Appendix Add A**, p11; **Notes,** p12; **Appendix Add B (Hirtle, Lehnert 2014)**, p17 with those **NOTES** end of that Comment, p31.

Dear Sirs:

Thank you for accepting my comments regarding: ''Annual Stress Test Reporting Template and Documentation for Covered Institutions with Total Consolidated Assets of $50 Billion or More''.

After reading "Supervisory Stress Tests" (Hirtle and Lehnert, Nov 2014) and seeing the emphasis on stress tests by the FDIC and the Fed, it concerned me and in turn spurred reviewing the 'stress tests' and about what the FDIC was interested to obtain in public due process comment after finding that it had published a Notice in the Federal Register requesting Comment. I am combining my comment regarding the Annual Stress Test Reporting Template… while either including comments about Hirtle and Lehnert, "Supervisory Stress Tests" as an Appendix or a quickly subsequent addition.

The FDIC's effort to more closely track the FR Y-14A 'Stress Tests" with its FFIEC 031, ie Reports for Condition and Income, ie, the Call Reports also concerned me. Please consider and avoid the risk of using Call data is that it isn't capturing what the item in the Y-9C would capture and thus what the FDIC is observing although perhaps directly pertinent to the IDI, isn't completely capturing in using the Call item vs the fuller enterprise number that Y-9C item would capture. Impact issues that would appear using the Y-9C item would not be captured and/or observed in using the Call item.

In the **Preface,** I also have included observations related to **Regulatory Supervision, Regulatory General Administration** and **Regulatory Specific Administration** related to this **Request for Comment "RfC"**. Also in the narrative, where in Black I directly copy and paste text from the RfC, my comments in BLUE appear subsequently.

Preface:

Regulatory Supervision observations:
* **Revisions to Reporting Templates for Institutions With $50 Billion or More in Assets (p75153) "** On July 9, 2013, the FDIC approved an interim final rule that will revise and replace the FDIC's risk-based and leverage capital requirements to be consistent with agreements reached by

the Basel Committee on Banking Supervision in ''Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems'' (''Basel III'').8 The final rule was published in the **Federal Register** on April 14, 2014 (''Revised Capital Framework'').9 The revisions include implementation of a new definition of regulatory capital, a new common equity tier 1 minimum capital requirement, a higher minimum tier 1 capital requirement, and, for banking organizations subject to the Advanced Approaches capital rules, a supplementary leverage ratio that incorporates a broader set of exposures in the denominator measure. In addition, the rule will amend the methodologies for determining risk weighted assets. All banking organizations that are not subject to the Advanced Approaches Rule must begin to comply with the Revised Capital Framework on January 1, 2015.

With regard to this disclosure in this Request for Comment ("RfC") generally, US financial law and regulation including **Prompt Corrective Action** "PCA" were vastly better than Basel and what was done in most of Europe (except perhaps Switzerland) in any form. I consider Basel Accords in any form a slick de-regulation, and inferior erosion to adopting European practices that fail to supervise and provide appropriate oversight and regulation on the US financial system. Adoption of multilateral practices for US financial regulation coincides with the Reagan/Bush 1 era of financial deregulation and the plume of use of financial engineering and light touch oversight by the Fed and it in turn would have de facto power instead of the FDIC. The OCC (and the OTS now rolled up into the OCC) are under the Executive Branch, the Treasury Department and is easily manipulated by political interests as well as those same interests through the Fed on the OCC.

During this era of deregulation and multilateralism, financial engineering had obtained and have been enjoying light touch oversight and impediment to be regulated by policy levels above the FDIC (and Fed), but also with former Fed Chair of the BOG, Alan Greenspan, expedient to maintain appearances of prominence and power by also cheerleading for financial engineering by way of ad hoc contracts as 'financial innovation'. During this time the FDIC's and Fed's full scope safety and soundness examinations of the largest IDIs were stopped or limited in scope, for this comment's purposes, the Covered Companies.

For the Record, I consider 'financial innovation', which are non loan, non investment securities, what were formerly off balance sheet contingent agreements, swaps of every sort, barter arrangements of collateral posted against repos, re-repos, and all synthetic securities as the GMO –genetically modified ingredients (NOTE 1) - of the banking world's services and products. (NOTE 2)

Deregulation that has fostered this financial illness and as part of inflate/collapse gets the FDIC a ramped up, larger meat ball surgeon role as Resolution supervisor - now to size up a member of the herd of the Covered companies. These are among the largest IDIs in the US and in some cases, the world.

Meanwhile current new regulation isn't solved the root problems such as repealing the Commodity Futures Modernization Act ("CFMA" 2000) so that derivatives cannot be traded and as a result vastly less can be written, limiting 'fragility' in the financial system. To the FDIC board and staff in attendance at the 10Dec14 SRAC meeting in an afternoon Q/A, Dr. Simon Johnson of MIT said if the FDIC says it knows the problems causing the fragility and what is reason for consideration of resolving a systemically important financial institution (SIFI" or in the case of these Stress Tests, a Covered Company) why doesn't it address that now, and rectify that now rather than wait until a SIFI would have to be resolved. The answer by the FDIC's Chairman wasn't easily discerned, however, policy levels above even the Fed, let alone the FDIC laud gmo financial instruments-inflate/collapse unsafe and unsound banking practices as financial innovation, which isn't answered in a sound bite and about the FDIC is reluctant to publicly battle. (http://www.fdic.gov/SRAC/)

The FDIC isn't going to quickly condemn nor deter, even to MOU financial innovation. SIFIs are required to file their Resolution plans as if they're on Cease and Desist notice they'll be shut down on a

Friday night after 60 days if failing to address their C&D order. But the ISDA members including the US SIFIs and Covered Companies as a cartel, and also with their power in Washington and around the world, although they'll not get shut down this Friday night, nor in 60 days, even if they're not C&D'd for unsafe and unsound banking practices, they need to clean up/unwind their diets from contamination by systemic amounts of the financial GMOs.

*Without full scope examinations at the present time at the SIFIs, are there experienced, unbiased, non captive analysts and examiners of the FDIC on site footing these DFAST models using the Covered Companies' (*sic)* data produced from and based on their operating activity and related management decisions? Is the non FR Y-9C and/.or Non FR Y-14A data used in the DFAST models also validated for credibility and is that from the FFIEC101? As an outside analyst, the Instructions often failed to cite from where Stress Test data was to sourced or from which public regulatory filing the Stress Test Data was to come. Covered Companies also have to file that data for the public. What banks file for public use is only in financial statement form, whereas the Stress Tests disaggregate it for forecast use over different commercial environments.

*Restore Full Scope Safety and Soundness examinations with Stress Tests used in conjunction with the Exams. A lack of full scope on site examinations on these enterprises by regulator /supervisor of these financial institutions and substituting ONLY? stress tests for acceptable compliance with regulation when the bar is so low and regulator turf issues impede effective oversight and disciple gets us to Bear Stearns and Lehman. In spite of all the drama and theatrics, DFA, tons of new regulation, very little of which solves the problems for which CFMA and Gramm Leach Bliley's legitimizing CDS needed to have been repealed. NOTE 3)

Without full scope examinations and proliferation of these ad hoc contracts which are unsafe and unsound banking practices at the institutional level and all together magnified make the 'fragile' system (NOTE 4)

* Supervisions should remember moreover, to avoid poor quality data and agency discretionary polluted reporting accepted as high quality financial reporting by bank management. Data and financial information is the representation the banks make in the stress tests that the regulators are using to judge the operations and financial quality of banks' activities and management decisions.

This gaming, the fair value "FV" of financial Balance Sheet items should not be permitted in the reporting model now known as US GAAP. Fair Value over time increasingly has shadowed the financial markets as Covered Companies' Balance Sheets have been more concentrated with items that shadow the directions of the financial markets. What now because of the erosion of US GAAP to fair value and away from 'historical cost' basis accounting, is part of the fragility of the Covered Companies, and as a result in the financial system (NOTE 5).

These ad hoc contracts are an institutionalized, legitimized method of capitalized fraud, which proxies and has proxied for commercial banking activity. The Stress Tests are attempts to understand this? Now however Stress tests are part of federal law, whereas full scope examinations, and Cease and Desisting from unsafe and unsound banking practices aren't law any more? Rules requiring this for Covered Companies don't exist any more?

Using Stress Tests in conjunction with full scope examinations and cease and desists for those Covered companies engaging in 'financial innovation', is the best strategy. RAP data separating the cash banking and cash investment banking and product business from the synthetic, the 'financial innovation' is best for including in and analyzing as a part of the Stress Tests.

*Stress Tests with adverse scenarios should also require what 'shops' look like without the financial engineering, ie removing all the swaps, CDS, hedges from all the balance sheet items to see the performance and the condition of the enterprise.

Require management to provide FR Y14 data that is FR Y-9C origined but also 'free' of the hedging. Hedging 25 years ago meant making loans that had an interest rate exchanged by management for another like a floating rate interest or currency switch with 'points'. Rather than renegotiating the loan, bank management engaged in 'swapping' the interest or currency component which is agency self dealing at the banks. The FDIC allowed small amounts to go off-balance sheet.

But with deindustrialization and 'free' trade, along with the balance of corporate America in the 90s that lost their 'top line', big financials likewise lost their 'top line power, ie their power to price more strongly on their lending and related services. Their decade or more of financial innovation culminated with 2007 having record breaking earnings however, in 2008 they needed TARP. We're forgetting what in history we're repeating. (NOTE 6)

*Our regulators need to stop protecting 'financial innovation'. The FDIC wasn't allowed to administer full scope examinations to the Covered Companies engaging in these ad hoc contracts. The regulators said they weren't allowed to investigate or determine for fraud at subsidiaries engaging in fraud, in many cases mortgage writing fraud. Rating Agencies said they were not allowed to do due diligence more thoroughly on deals of mortgage paper, structured product with re-hypothecations and synthetic mortgage paper and like instruments, CDS; the list goes on. This 'financial innovation' now has plumed into the many, the hundreds of trillions of Dollars.

This is HEIST.

For the Stress tests, any and so much financial data from the Covered Companies contaminated with this sort of computation, legitimized contracting obscuring the house of cards, the Ponzi schemes that are financial market connected – where is the gasoline and the match?

*Another consideration would be to separating or memo all 'financial innovation' that was before vrs after Gramm Leach Bliley and CFMA that prior to those legitimizing legislations when regulated 'derivatives' cleared Chicago Mercantile Exchange "CME" vrs non CME cleared.

See Appendix Adds A for the Trust structure strategy.

*Most recent Bank Holding Company Performance Report ("BHCPR") as of 13Jan15 is as of 31Mar14. There have been no updates to that date's form or User's Guide findable on the FRS website, nor on the FFIEC website. Where is a semi-annual update although a quarterly update would be better.

The ratios and breakout in the Derivatives pages first do not reveal nor "rationalize" (analytical and differential ratios) the "financial innovation" exposures with the number of times of Tier I or Common Equity capital.

There is nothing to determine quality of hedging that management says its positions are hedged given a.) all the "Financial Innovation" these ISDA banks/Covered Companies write, b.) nor like Asset/Liability GAP over time periods that older era Call Reports had, or c.) there is nothing like what is in the FFIEC101 in its schedules of Schedule A: Advanced Approaches Regulatory Capital Items 91-98, other Schedules B through O Risk-Weighted Asset Information for Banks Approved to Use Advanced Internal Ratings-Based and Advanced Measurement Approaches for Regulatory Capital Purposes Of Non-Defaulted and Defaulted Exposures that is drawn into and put into ratios for analysis for users of the BHCPR.

There are bright people in the FRS and at the FDIC that can coordinate to alter the BHCPR, and combine high quality ratios using the data requested in the FFIEC101 along with the data required in the FR Y-9C that is used in the FR Y-14A and the BHCPR.

Regulatory General Administration related to the FR post: 2nd paragraph in the Request for Comment "RfC":

"SUMMARY: The Federal Deposit Insurance Corporation (''FDIC'') invites the general public and other Federal agencies to take this opportunity to comment on a revision of a continuing information collection, titled, ''Company-Run Annual Stress Test Reporting Template and Documentation for Covered Institutions with Total Consolidated Assets of $50 Billion or More under the Dodd-Frank Wall Street Reform and Consumer Protection Act,''

*It would be helpful to those providing comment, for the FDIC to include links/urls to all relevant materials connected to the Request for Comment "RfC".

*Additionally, the FRS appropriate parties are not included among the addresses to submit comment, nor does it appear as if the Fed and the FDIC (and the Comptroller " OCC") are coordinating on these data changes and model tweaks on which the FDIC is requesting comment, although the FR Y-14(A) supposedly is taking data off the FR Y-9C which is the regulatory report of the data of the consolidated enterprise of which the Covered Company is the lead subsidiary, whose financial data would be included in FDIC "Call Report" data on the Insured Depository Institution "IDI" that rolls up into the FR Y-9C.

*There are activities and subsidiaries that are not under the IDI and their financial information would not be included in the Call Report, however would or should be captured in the FR Y-9C, and given mass and/or type of activity, would have an affect on the profitability or worse on the safety and soundness of the IDI.

In most cases, most analysts and regulators are sincere in their desire to attempt to avoid what happened during the Bush 2 deregulation era. As a result we tend to contemplate what material activities en mass (asset size and or necessary capital levels to support the non IDI activities of the BHC) or fragility (ie, connected to the levels and volatility of the financial markets) that could affect the IDI but are not captured in the IDI's reporting, as these places now aren't properly examined at the present time. The Call Report –which actually is quite good, however, what should be disclosed in it and/or in other Schedules, and thus put into the forecast modeled on potential IDI impact and profitability and/or expense under the same scenarios the FDIC requires for the CCAR/DFAST models.

*Additionally if the FDIC and Fed are attempting to align their stress test data collection, the OCC also was not mentioned in *Title:* Company-Run Annual Stress Test Reporting Template and Documentation for Covered Institutions with Total Consolidated Assets of $50 Billion or More under the Dodd-Frank Wall Street Reform and Consumer Protection Act. *OMB Control Number:* 3064–0189 although the OCC on its website also has links to old and new DFAST materials. It was difficult to connect its Template Instructions pdf to its Templates in Excel.

That there does not seem to be the consolidation for all financial sector industry data and report forms under the FFIEC website, so that when one goes to the OCC or the Fed or FDIC websites for links for DFAST "Stress tests' and Instructions, worksheets, spreadsheets, etc, launching any link would/should take one to the same repository for all the of that pertaining DFAST that has to be filed with a regulator. If the regulators are said to be coordinating, why isn't this reflected in the organization of the administration of the Stress Tests, even though each regulator may be focusing on different things. We're dealing with Bank holding companies however and it's not a young institutional framework, nor is this as a business too new that all the regulators shouldn't all be involved with stress test results of all data?

With regard to the Fed's FR Y-14A Summary pdf, there are no page numbers in this pdf. There should be page numbers whether or not tracking the number of pages in the pdf, however, page numbers would be a small improvement, rather than none at all and only Schedule names in the upper left corner of the pages.

Also on another related matter, with regard to FR Y-9C HC-L Derivatives and Off Balance Sheet Items, Item 15: Over-the-counter derivatives: a, b. (1) through (8) which breaks out Fair Value of Collateral on Banks and Securities Firms, Monoline Financial Guarantors, Hedge Funds, Sovereign Governments, Corporations and All Other Counterparties.
Is there a way or what in the Y-9C captures how much to 'earnings' of, and/or from barter that occurs from holding or 'seizing' collateral when counter—parties fail to follow through in the contractual arrangement?

Rather than engaging in more true revenue generating activities, these rentier situations that Banks enjoy because of failure of counterparties to abide by the contractual obligation, although are helpful for liquidity and there is interest or de facto interest earned, Barter of any sort and as a practice – as a practice does not belong as a component of IDI earnings.

It also doesn't belong to any greater magnitude than perhaps 1% of net earnings, especially without disclosure of the degree to which counterparties are failing on their contractual obligations in these collateralized agreements and the Covered Company is, not nor has been required to disclose these forms of micro-market abuse, free rider or rentier situations. Barter fails to generate sufficient revenue to properly cover the economic costs of the barter. In a bank, the all-in costs of transactions often is priced accordingly conceptually like Cost of Goods (services) Sold, whereas barter activity and 'revenues' generated from it fall outside of the classic Goods/services rendered framework, even now with Revenues accounted for on a contract basis. (NOTE 7)

P75153 Para 4. "Consistent with past practice, the FDIC intends to use the data collected to assess the reasonableness of the stress test results of covered banks and to provide forward-looking information to the FDIC regarding a covered institution's capital adequacy."
First, in this Request for Comment where are the links to the appropriate data on the FDIC and/or FRS websites to all current capital ratios and all proposed capital ratios for regulatory capital adequacy? These links if provided would save time for definitional and macro-conceptual as well as micro-conceptual purposes. Or perhaps why wasn't there a footnote with link or reference to the specific, most recent C-CAR, DFAST items for which the FDIC is requesting comment. IF I am comparing wrong FR Y-14A Summary pdf that accompanied the DFAST materials on which this FDIC Request for Comment is relying, please, then the links and/or specific website URLs to produce the appropriate pdfs and spreadsheets would have very much appreciated.

On another matter, if there were no examinations of the enterprise and I am also and perhaps wrongly under the impression that no safety and soundness examinations were done of the IDIs that often are the largest subsidiaries of these Consolidated Bank Holding Companies' banks, aka here, "Covered Banks', then THANK GOD at the very least these stress tests are being done and the regulators reviewing model quality, scenario results that HOPEFULLY have some combination with discipline against agency self dealing, abuse, and what is evident in the numbers by bad management decisions and unsafe and unsound banking practices.

Although it's been said that in the CAMEL 'rating' the CA-EL ratios' quality can generally reveal what the "M" 'rating would be (or the M is 'evident' in what the CA'EL are) which is administered by Examiners after the full scope safety and soundness examination as that confirms the CAMELs rating, without full scope Safety and soundness examinations of the largest sub, and as I've urged again for the Consolidated enterprise, even if the Covered Company is virtually the entire consolidated enterprise, even still Regulator/supervisor use of Stress Tests is better than nothing at all. Consistent with past practice, the FDIC intends to use the data collected to assess the reasonableness of the stress test results of covered banks and to provide forward-looking information to the FDIC regarding a covered institution's capital adequacy. The FDIC also may use the results of the stress tests to determine whether additional analytical techniques and exercises could be appropriate to identify, measure, and monitor risks at the covered bank. The stress test results are expected to support ongoing improvement in a covered bank's stress testing practices with respect to its internal assessments of capital adequacy and overall capital planning. … HOWEVER, this is INSUFFICIENT USE OF THESE MATERIALS, IE 'STRESS TESTS and our efforts to review what the FDIC is suggesting with report aligning, data aligning, updates for new regulation with regard to capital adequacy and measurements of that.

COMMENTS TRACKING THE REQUEST FOR COMMENT

Regulatory Specific Administration

Item 1: observation on Summary Schedule

Revisions to Income Statement Sub- Schedule

Under the current reporting template,, there is a definitional difference between the realized gains (losses) on available-for-sale (''AFS'') and held-to maturity (''HTM'') securities reported on the Income Statement (items 127 and 128) and the AFS and HTM totals computed on sub-schedule A.3.c (Projected Other-Than-Temporary Impairment (''OTTI'') for AFS and HTM Securities by Portfolio), resulting from the Revised Capital Framework. In order to accurately collect information for the Income Statement, the FDIC proposes changing items 127 and 128 to be reported items instead of being equal to the total amounts on sub-schedule A.3.c.

Mindful of what I mentioned about the contamination of the data by synthetic instrument, 'financial innovation, ie effects such as synthetic instruments and hedging, there are other more data accuracy- 'administrative' details I am observing here. I also would want better disclosure of financial innovation impact on what became OTTI and or while in OTTI, because the FV clock doesn't stop merely because there is an OTTI on an asset.

First There is no AFS included in Income Statement Y-14 A.1.a. 127 taken from the FR Y-9C 6a. Only HTM is included in #127 and 6a., itself which is only HTM according to instructions affected for OTTI. AFS is 6.b which is Summary Y-14 A.1.a. 126. The FDIC accordingly would want to note this for its test analysis purposes. Instructions for the Y-14 omit from where in the Y-9C the OTTI to be applied correctly in the Stress test or even for Y-14 A3c; thus if using 'as reported' the 6a. item from Y-9C omits AFS which must be included with 6.b.

Moreover, the Summary Y-14 Schedules, A.3.c. seem to not have fields open for both HTM and AFS values for the various securities' portfolios. THIS ALSO NEEDS TO BE RECTIFIED. Each asset class listed in Y-14 A.3.c assumes for each value in Column "Actual Amortized Cost" that the value is both or either, but no ability in that schedule if among any or all of those asset portfolios there are both AFS and HTM for those securities. Consider that securities in a portfolio are moved out of HTM into AFS during a quarter. There are other securities of those portfolios both in HTM and AFS. Not any single portfolio is only one or the other. Summary Y-14 A.3.c doesn't allow for break out separately between AFS and HTM.

An issue would be Covered Companies' "As Reported" included OTTI in their Y-9 6a and 6b. Definitions say OTTI is to be included in the values used in 6a and 6b. Presumably then Y-14 A3c also includes OTTI, if assuming that the same data in this schedule roles up into Y-9C HI 6a and 6b. (also consider the impact of 'financial innovation' that has been included or be the reason for the Other Than Temporarily Impaired value and consider isolating or having memo fields for these to expose inferior quality or regularly severely damaged securities that don't recover quickly, are too 'thinly' traded or don't belong trading or from which they should be ceased and desisted.

Additionally, incorrectly assuming that the data in the Y-9C foots or rather the data in the Y-14 foots with the Y-9C, I was disabused of this as the FR Y-14(A) Instructions omitted specifying source of data that (in my case outside) analysts are to use for the FR Y-14A Schedule A.3.c "Projected OTTI (other than temporary impairment) for AFS and HTM Securities by Portfolio ". Perhaps because this is "c" of this group of FR Y-14 Schedules "Projected OTTI" the Instructions the beginning specifies the source of the data for these that the FDIC in the RfC also doesn't say.

Stated more plainly the Summary instructions and the Y-14 instructions does not indicate the source of the values to be used or source of data other than assuming from internal data sources. Notwithstanding, A.c.3. is mixed together HTM and AFS, whereas using "As Reported" data for A.1.a.127 would exclude AFS and if using As Reported data from Y-9 HI 6b. is needed to be included in A1a 126. AND formerly used A.3.c. needs to separate AFS from HTM for each portfolio if it is to be continued to be used.

Revisions to Income Statement Sub-Schedule … Additionally, for consistency with changes proposed to sub-schedule A.5 (Counterparty Risk) described below, items 59 and 62 (Trading Incremental Default Losses and Other CCR Losses) would be modified to be Trading Issuer Default Losses and CCR Losses, and line item 61 (Counterparty Incremental Default Losses) would be removed.

First – I am assuming I have the most recent FR-Y14A summary form, for which in A1a Income Statement line 59 Trading Issuer Default Losses**.** I urge the FDIC however continue to collect and thus to maintain data collection of - such as Trading Incremental Default Losses. Ordinarily if examined, and agency issues have impeded discipline of traders or counter-parties, Examiners of Covered Companies would expect information such as, and what is tracking incremental default losses unless I'm not understanding what incremental losses are being tracked and why originally it was this rather than the new item and name the FDIC wants to use.

Moreover DO NOT REMOVE line item 61 (Counterparty Incremental Default Losses) for the reason I mention above. There has to be information that helps the support the regulators in their oversight and discipline of Covered Companies, employees such as traders and counter-parties.

Revisions to RWA and Capital Sub-Schedules

Notice here in **FR Y-14A Schedule A.1.c.1 - General RWA** items 2 and 3 respectively are HTM and AFS Securities. If this General RWA is breaking out HTM from AFS then, likewise Schedule Ac3 should separate HTM from AFS.

Whereas I agree with the FDIC attempting to line up definitions between the Call for FDIC purposes vs the Y-9C schedules which are referenced as the data sources, FR Y-14A Summary does not have a Schedule A.d.1. A.1.d (Capital)

The FR Y-14A Summary pdf goes from pg 23 **FR Y-14A Schedule A.1.c.3 - Advanced RWA**

to pg 24 **FR Y-14A Schedule A.1.d.1 - Capital - CCAR** footing with the **Schedule HI-A—Changes in Bank Holding Company Equity Capital** Perhaps if I dig around in the actual sub-schedules that the Summary is supposed to serve said purpose, the FR Y-14A Summary pdf is missing the Schedule A.1.d. A.1.d (Capital) about which the RfC is observing.

With regard to the RWA sub-schedules, the standardized approach RWA and market RWA items of schedule A.1.c.1 (General RWA) have been changed in accordance with modifications to schedule RC–R of the Call Report that are currently being considered, and moved to a separate schedule A.1.c.2 (Standardized RWA). These changes include both the modification and addition of items, for an overall addition of 12 items. Additionally, the computed items one through five of the current sub-schedule A.1.c.2 (Advanced RWA) would be removed.

Again unless my FR Y-14A Summary is wrong, A1c2 is **FR Y-14A Schedule A.1.c.2 - Standardized RWA** while **FR Y-14A Schedule A.1.c.3 - Advanced RWA** dealing with **Advanced Approaches Credit Risk (Including CCR and non-trading credit risk), with 1.06 scaling factor and Operational Risk**

I am not certain to what the RfC is referring when it mentions 'through five of the current sub-schedule A.1.c.2 (Advanced RWA) would be removed. Perhaps from the SUMMARY pdf these fields would be difficult to determine.

FR Y-14A Schedule A.1.c.2 - Standardized RWA, items 11 though 48g however is also dealing with Market Risk that foots with the CALL's Schedule RC-R Part II 44 through 62 and Memorandum 1 and 2 + items.

Revisions to Retail Repurchase Sub-Schedule
I agree here with the FDIC's efforts to more robustly request and require financial data regarding these matters mentioned in this **RfC**.

Revisions to Securities Sub-Schedule … the FDIC would add a covered bond category to sub-schedules A.3.b, A.3.c, A.3.d, and A.3.e in order to appropriately and separately evaluate respondents' projections of these assets…
Bravo. I agree here. Covered Bonds however are usually underwritten/structured by foreign IDIs, which if they're lending in the US and packaging them on their own Balance Sheets as Covered Bonds of which there are not many and thus also not very liquid, as well … shouldn't the counterparties to these structures also have to be reported and/or those exposures in a Memo field as these securities are not ordinary, plain vanilla MBS with relatively deep liquidity.

Revisions to Trading Sub-Schedule **FR Y-14A Schedule A.4 - Trading**
I agree, however, run a Memo line also on the schedule of the Trading Portfolio Gains/Losses so that analysts, yourselves can see if there are helpful correlations between the Portfolio Losses and the "CVA" losses. If traders are having a practice of trading in items that tend to constantly have CVA losses, and/or Counter-parties with which there are constantly "CVA" losses, these should be isolated, identified and understood better. **FR Y-14A Schedule A.4 - Trading** I suggest however the FDIC require or urge more detailed break out of securities in this Schedule.

Revisions to Counterparty Risk Sub-Schedule **FR Y-14A Schedule A.5 - Counterparty Credit Risk**
In order to allow respondents to use alternative methodologies for estimating losses related to the default of issuers and counterparties, the requirement of using the incremental default risk (''IDR'') methodology would be removed.
I disagree with removing IRD methodology estimated loss items.

Keep this as well as add the new line items in order to see what results occur from the various IRD as well as other and thus those would be disclosed as methodologies for estimating losses.

Do not remove: items 3 (Counterparty Incremental Default Losses) and 3a (Impact of CCR IDR Hedges) would be removed, item 4 (Other CCR Losses) would be modified to be CCR Losses, and the item, Effect of CCR Hedges, would be added. And yes do add these.

Regulatory Capital Instruments Schedule
Proposed changes to the Regulatory Capital Instruments Schedule would be responsive to industry feedback and ensure that information is being accurately captured. Specifically, the FDIC proposes (1) adding an item that collects employee stock compensation to the four quarterly redemption/ repurchase and issuance activity subsections; (2) adding 18 items to the general risk-based capital rules section and 28 items to the revised regulatory capital section that collect activity other than issuances or repurchases for each instrument in the section, because respondents add this activity to other items; and (3) changing the capital balance items in the general risk-based capital rules section and the revised regulatory capital section from reported items to formulas, since they would be able to be computed using the items proposed above.
I agree. Very good especially to request reporting of employee stock comp, etc. With regard to the maggotry (any possible way to turn vainly waste by way of 'turn-of-the-financial-paper' and attempt to make money out of it, which a great of this is used to 'inflate/collapse' like gmo in the food. Maggots are

the phase in the lifestyle of an insect that at that stage thinks purely to feed its belly. Maggots can only feed on garbage; if Wall Street and the Financial sector were healthy and doing healthy business, there wouldn't be the need for 'stress tests' and all these quasi capital instruments needed to foot their balance sheets, that when in partnerships, these corruptions of all these sorts would not happened, but now do with agency self dealing) of Wall Street product/services development, still you've captured all of the 'capital' instruments that at the present time seem to exist and that one could imagine. I agree with (rather than not to) Capturing and modeling more data, rather than eliminating non-redundant, descriptive, revealing data that has use but for some reason like in 2008 when the Y-9C or the Call was avoiding separating non cash impact, from cash items, ie loans, etc by way of FV was flowing into revenue.

FR Y-14A Schedule D - Regulatory Capital Transitions

For the record, I have not supporting using unrealized non cash gains or losses at all run through the Income Statements or 'recognized' in the Balance sheet as an asset or accounted for in Shareholders' equity. This has contributed to inflated values or contracted values that shadow the directions and 'levels' of the financial markets. Indirectly that has driven the 'trading' as it has goosed the value of collateral and the levels of the 'trade' price.

For this and related reasons I have urged developing RAP (see NOTE 5), in an effort to thwart 'fragility' and Banks' Balance sheets shadowing and impacted by the financial markets, in part on which Fair Values are based. I had opposed harmonization of US GAAP with IFRS which as a reporting model is based in Fair Value.

The US financial system has not been improved by the erosion of US GAAP to harmonize with and/or adopt Fair Value on which to base its conceptual framework. For this reason the 'cash flow hedges' and like that at all on the Balance sheet and in Shareholders' Equity are part of the problem, rather than solution. Agency has enjoyed a great deal of self dealing and hedging, derivative, over the counter, virtually always 'fair valued' instruments like that have been part of the problem even though management has made vast amounts of profiteering money from writing and trading these items which are ad hoc contracts that never should been permitted in their volume nor by way of federal legislation legitimized to trade.

When late in 2007 the FDIC was attempting to meter and mitigate the problems of what was going to happen as the financial markets corrected and the Balance Sheets of the Covered Companies would contract and take down their capital as what was fair valued and what would be traded using falling financial market prices was going to negatively impact the banks, with a group of other banking experts I contemplated the earlier era's FDIC 'net worth certificates' and similar instruments that had accompanied the era of 'RAP' accounting. At that time the FDIC decided to omit removing DTAs and DTLs from Goodwill. I thought there was a brilliance about that move, but can see now where the FDIC wants a more true form of Tangible Equity Capital.

In footing the RC-R (which has to be completed using consolidated numbers and thus at the present time seems to match the data in HC-R), I am not certain what items the FDIC is removing that had been used in previous FR Y-14 capital planning as the Request for Comment omits which items it added and is interested to omit going forward.

I would and do oppose removing explanatory items that may not appear on either the RC-R or the HC-R but if from the FFIEC101 then these should be kept in the **FR Y-14A Schedule D.1 - Capital Composition.** The item labeling layout of this D1 schedule of the FR Y-14 however, could match the HC-R or the RC-R.

Operational Risk **Schedule** I agree to ask for more data for this schedule, and thus agree with the FDIC's efforts to understand these risks, request more robust disclosure about them, expect deeper reporting about them, and attempt to develop better quantitative measures for these operational risks. It's a good thing even if starting with specific mortgage and related litigation and class action law suits that have arisen related to agency self dealing and grand scale fraud perpetrated by many of the Covered Companies.

Counterparty Credit Risk Schedule
What is on the previous Stress Test spreadsheets is fairly robust. What the FDIC is asking makes sense although again if I were using these for analytical and advisory purposes I would not want removed the (3) removing all columns with the institution specification of margin period of risk (''MPOR'') under the global market shocks from sub-schedules F.1.a through F.1.e and F.2; (4) removing the column LGD Derived from Unstressed PD on F.2….

Burden Estimates… Comments continue to be invited on: (a) Whether the collection of information is necessary for the proper performance of the functions of the FDIC, including whether the information has practical utility; (b) The accuracy of the FDIC's estimate of the burden of the collection of information; (c) Ways to enhance the quality, utility, and clarity of the information to be collected;

a) Yes this data collection is necessary for the proper performance function of the FDIC. It also is essential to restore full scope safety and soundness examinations and use these stress tests in conjunction with the exams.
b) And c) This data collection for the Stress Tests also should include more data from the FFIEC101, although I'm not certain for this filing deadline for this comment what that data would be and be used in the Stress tests, but also for the improvement of the ratios used in the Bank Holding Company Performance Report, as well as improvement in ratios on the Summary of what is produced by the Stress Tests.

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APPENDIX ADDS A

*Establish a "Trust" Partner or a form of a Joint Venture for all Balance Sheet items and presumably they survive the test for Assets and 'cash' securities (The test for approvable assets is cash basis rather than ' synthetic' and 'hybrid' of mix of cash instruments with 'synthetic' (NOTE 8)) but all such securities in for example Available for Sale "AFS" (these are Fair Valued) and syndicated loan pieces that trade, and thus are considered "Loans for Sale" also would be put in the Trust. Trading activities on these cash instruments would have to be developed to be clean of the effects of synthetic and hedging.

Sadly although it was good for FASB to re-promulgate Revenue Recognition based on implied or expressed contract and forms of formal contract, the financial innovation all is forms of 'contract', which I call ad hoc contract. For example all recognized financial markets and securities exchanges, NYSE, NASDAQ, and those recognized securities exchanges in other major foreign cities, (NOTE 9) or other registered Exchange traded asset or bond or non synthetic, non derivative, non swap, non 'ICE" contract, that has to be fair valued, (NOTE 10) would be placed in the Trust. This is so that fair valuing these assets does not affect the stability of the IDI and put it at more risk for FV market abuse and agency abuse of marking ad hoc contracts with discretionary pricing/values, where there is transparency that is responsible, rather than "Shock and Awe" because of a sustained severe correction in the financial markets.

What of there, that is said to be a 'plunge protection team' to prevent severe market corrections that would take down a bank's Balance Sheet, and that of any other institution whose Balance Sheet is full of instruments that have to be fair valued, and thinly capitalized, minimizing affects by strong market directions on assets and items on the Balance Sheets of the largest financial institutions.
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Nor would the Fair Valuing of these assets and other investments set aside in the Trust, be affecting the consolidated financial institution.

Assets and investments held in the Trust portfolio do not affect the Balance Sheets of the Parent Bank Holding Company. This should be analyzed to see the value of using this Strategy while operating an IDI and in a bank holding company without the destabilization of Fair Value of assets that now have to be reported in that current framework of US GAAP until and unless this changes.

None of these, ie financial innovation, would come into the Trust. All Financial Innovation of any sort, including 'hedges' would be Cease and Desisted. This means all swaps, Credit derivatives of any sort, all synthetic contracts and such like items of any similar sort including all ISDA contracts and like those but non ISDA. The general notional amount of these together is approximately $1,200 Trillion. Even if 'hedged' ie offset and thus not notional and is half that amount, in whose pockets is all of this 'wealth"?

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NOTE 1 USDA comments I provided in 2012 decrying GMO and associated war crime herbicides **Comment Letter: US Department of Agriculture – Public Due Process Comment letter against deregulating Dow Agri Group GMO 2,4-D (dioxin) tolerant soy, and supporting banning GMO in the US food supply and agriculture; Amicus Letter: OSGATA v Monsanto- Friend of the Court Letter on behalf of Organic Seed companies and Organic Farmers Trade Association in anti-competitiveness/corporate abuse lawsuit against Monsanto.** http://www.regulations.gov/#!documentDetail;D=APHIS-2010-0103-4699

NOTE 2 These ie, GMO counterfeit safe food and contaminate processed food and feed lot animals/poultry with dangerous ingredients and pharma. These bio tech strategies done to crops and other common products both for their food and commodity use as well as their ingredient use, are part of the "Sustainability' policy. Sustainability is the name the US government has given to its signatory status of the UN's Global 2000 'framework'. This is a population reduction agenda, and in turn Sustainability also recognized at the Federal level as policy alters the quality of regulation in Executive Branch agencies. Whereby Sustainability as a population reduction policy and the US government as a signatory to an internal 'treaty' of sorts that is a population reduction international framework, the war crime herbicides by former German WW2 chemical companies, 'aka' Nazi chemical companies and the associated bio tech to enable grains to survive being sprayed with the herbicides of those chemical companies and US chemical companies that employed those Nazi scientists, has our food supply now significantly defiled with these contaminating, dangerous, life shortening ingredients and an environment and farmland that with every crop and herbicide dosage makes Superfund sights out of our once beautiful farmland.

I consider financial innovation equal, with and a financial system analogy to GMO and the associated war crime chemicals/herbicides that are severely polluting our environment and nearly every crop grown near where gmo is grown and those herbicides are used. With more than $700 Trillion notional of ISDA derivatives and more than $500 Trillion of non ISDA derivatives, but similarly 'financial innovation' or again, ad hoc contracts are contaminating the financial markets, the financial system, investment and pension portfolios and other retirement funds.

Consider *systemic * inflate/collapse strategies: even though both Sustainability in the food supply and environment as well as financial innovation are forms of asymmetric war, people such as Greenspan and Ruben testified before the Financial Crisis Inquiry Commission established by the Dodd Frank Act, that they didn't known what was happening while they were in the middle of what they were doing. Their lawyers told them to say that. But those were functionaries to deliver deregulation and in turn, foster an environment for inflate/collapse, as is a reason for de-regulation.

With the Fed's turf battles for dominance, but with its lack of true regulatory ability, while with a culture of political expedience more interested in economic and monetary research, but disinclined to do it properly of the financial system, and the corruption of financial engineering on the banks' balance sheets legitimized to be there with the Commodity Futures Modernization Act (CFMA 2000) when they could over the counter trade these former non balance sheet contracts we get its failing to properly research and reject the elephant in the room of the unsafe and unsound banking practices of the financial innovation. Again these products and 'services' are the gmo of the banking world.

With systemic asymmetric war, this also affected the direction of the FDIC which has eroded, with it having to take a form of a back seat to the Fed, and accept the 'financial innovation'. The FDIC knew it as unsafe and unsound banking practices, and without effective constraint that it had earlier administered to 'swaps' on loans for the interest component, the FX component and what had existed before 1991. Just after than, Europe was encountering the cost of German reunification, significantly deteriorated credits, credits underwritten that were known to go sour in the near future, and thus were constructive or conveyed fraud with the financial engineering obscured.

These instruments plumed in Europe especially the 'credit derivatives', which occurred to facilitate Germany's reunification costs and obscure weak credits. Then with legislation Gramm Leach Bliley in 1999 and CFMA with Ruben, Sommers, Greenspan and Senator Phil Gramm against the expertise of CFTC Chair Brooksley Born who said there was NO institutionalized, regulatory framework for these contracts, when the banks obtained the ability to trade these items, also without full scope safety and soundness examinations, which in effect had been limited during this time, without examination of what counterparties were encountering with each other, this exponentially increased institutional and systemic fragility by way of this financial innovation, the GMO banking products and services.

With large IDIs' balance sheets full of this financial innovation but in reality financial gmo making them sick, the system sick, nearly every large investment fund of some sort – sick - , the FDIC now has this enlarged role as 'meatball surgeon'. Now there is link to the sale of smaller 'resolved' IDIs, but later perhaps a hacked up SIFI, which I analogize by way of the 'corporate personhood' concept, that the FDIC as meat ball surgeons are setting up to sell of 'body parts' - https://www.fdic.gov/news/news/financial/2015/fil15004.html even though this link is for dealing with institutions with assets less that $1B – (a little bit of 'gallows' humor, God forbid a SIFI have to get taken down..) by way of political maneuvering for interests above its pay grade, to cut out this sickness – to resolve – . It's not actually hacking up the elephant in the room, however, the gmo of the financial world and require cease and desist of the unsafe and unsound banking practices of writing and trading 'financial innovation' because this financial gmo is legitimized in the same what that the USDA legitimized the bio tech when those Nazi chemical companies wanted farmers to use their herbicides and our government would allow those war crime chemicals and their tolerant grains into the environment and food supply because it is a signatory to population reduction that sleazily, slowly is killing the voters who eat the food contaminated with this slick, dangerous counterfeit food coated with agent orange and its other war crime chemical cocktails.

Four stars or otherwise, e-coli and botulism genetically engineering into grains also made tolerant to Agent Orange that was fed to your livestock from which your fillet mignon was taken, that dangerous BigChemical/BigAgri-lab craft will make the diner sick.

Same with all the financial innovation and the lurking regulator-deal facilitators to hive up a very big covered company for Jeb Bush's new off shore fund for foreign investors. Considering he is the son and brother of 2 former presidents who championed financial de-regulation and on whose watch 3 financial inflate/collapses happened, flushing the FDIC with bigger budget money, if it gets any from the voters, the FDIC isn't going to quickly follow through on Dr. Johnson's suggestion.

The FDIC was generally professional in its role as regulator and supervisor prior to G7/G8 multilateral agreements. Between the US with the Europeans and now the EU, these agreements have been attempting to 'harmonize' framework such as financial 'regulation' by way of Basel Accords, and financial reporting such as US GAAP with IFRS. As a result, we've had inferior quality regulation with Basel as well as 'de-regulation' as a result of inferior quality legitimizing, flawed legislation with Gramm, Leach Bliley and Commodity Futures Modernization Act.

I also suggest we reject acceptance and/or compliance and 'harmonization' or adoption of Basel Accords, including repealing where in US legislation that we've agreed to use or recognize Basel as well as IFRS.

Perhaps too, because the largest European banks hated that our NSRO –rating agencies were rating those banks while they were facilitating the costs of Germany's reunification, the US rating agencies were targeted for being "blown-up". This we witnessed during the Bush2 era credit bubbles and the owners of Moody's and S&P punished its analysts attempting due diligence of the mortgage structured and mortgage synthetic structured product were punished or were thwarted from doing due diligence on the structures, the cash flow, the underlying mortages on which the structured products were based.

NOTE 3 The 'handlers used by the banks or the 1% of the 1% interests that own and/or use the banks to de facto dominate the world and also which control the regulators regardless of their turf battles is the lurking issue here.

Potential resolution of a Covered Company is among what lurks. From Bill Donaldson, Henry Paulson may have obtained relief from the "net capital rule'' but in 2008 when nearly all the largest banks had balance sheets burdened with toxic financial waste of ad hoc contracts, some bad business decisions on the books, counterparty gossip in a correcting market, and other intrigues at policy makers' level were used to eliminate Bear Stearns and Lehman Brothers from the table of other gorgers on the shrinking pie of the US and global economies. The largest unstable exposures on these banks' Balance Sheets and impacting their Income Statements are their financial innovation.

Ad hoc contracts of 'innovation' – in effect capitalized conveyed and constructive fraud, even re-hypothecation of poorly underwritten credits with credit default swaps on them, and CDS on existing companies' whose loans, paper (debt of one sort or another) are in the market as borrowings but in the deterioration and erosion of commerce and commercial vitality, CDS, swaps ie – ad hoc contracts, as well as re-hypothecated paper on those credits are fraud but called 'Financial innovation'.

Not at all does any of this belong on the banks' balance sheets. The FDIC knew this activity as unsafe and unsound banking practices and products, while 2 decades ago people in examinations at the Fed knew this, but as we've seen there is urgency to blow up covered companies but gingerly 'resolve' them without too much mess and blood. Simon Johnson at SRAC and me for that…

There's been much hand wringing after Henry Paulson and Jamie Dimon had Tim Geitner rejected Lehman's collateral in a repo arrangement, and that spurred the Lehman bankruptcy. What may be is that all of the tears are crocodile. What may be is that the way now to set up the Lehman or Bear Stearns with the erosion, and using inferior quality policy that has eroded the standards the regulators and supervisors who are required to use/uphold, is the same pattern used 30 years ago. I mentioned Bill Black in other notes and the final Appendix on Hirtle and Lehnert's "Supervisory Stress Tests"

NOTE 4 Asymmetric war https://apsoras1.wordpress.com/2014/01/21/opposition-to-basel-iii-comment-to-banking-regulators-for-due-process/ NOTE 6 and NOTE 13 Use of non-hot war strategies. These are often what can be leveraged against another sovereign in a multilateral agreement. Examples of asymmetric war more recently are Germany's craft of the EU 'free' trade zone, where eventually all members accept the Euro, eliminate tariffs on imports into their countries from dominant countries like

Germany and shut their own companies unless those become deemed as “National Champions” which then would enjoy domination and favor in the EU in the domestic markets of all members while domestic businesses were to shut or some other way the “National Champions” would be able to control the markets and the profits while those countries markets without national champions and margin big ticket production such as autos would keep people employed in that home country, while countries without national champions or charging tariffs on them would have increasingly deliriously impacted economies. Whereas Germany wasn’t able to hold Europe with tanks and bullets with the end of the military part of WWII, it’s been able to achieve that with its EU commercial strategy and would have had domination earlier if the EU had accepted ‘fiscal union’. Now the banks’ balance sheets are full of sour assets, while our banks during this time during and after German reunification had been facilitating that/subsidizing the reunification costs and now the asymmetric war tactics of Germany to dominate Europe; these gmos, these financial bullets have been the swaps, hedging, the ‘financial innovation’, that now is greater in notional amount than $700 Trillion of ISDA contracts and $500 notional of non ISDA but like contracts. These contracts also are a part of the asymmetric war strategy. “Cold war” is an asymmetric war strategy, but not what most people would understand.

Asymmetric war also was what occurred with the Volcker era in the Fed when monetary policy caused interest rates to sour. Foreign countries borrowing and having to pay back given the high interest rates and/or doing business relying on US oil encountered severe hits to their economies. The US used it to take over assets in their countries as satisfying debt for equity ‘swaps’. Although the US began to de-industrialize during this era into probably a few select countries, to what we agreed in the G8 agreements to facilitate German reunification was another asymmetric, non hot-war tactic in effect against the US, for the US to continue to de-industrialize but eliminate ‘relax’ tariffs against imports, which the Constitution’s Article 1 Section 8 in effect requires the US to use to generate fiscal revenues.

NOTE 5 *I urge the regulators and supervisors to contemplate resorting to “RAP”, regulatory accounting principals or restoring it, and to prohibit the writing and trading of instruments that now have Balance Sheet recognition that are characterized as ‘financial innovation’ but if in having to be fair valued using the financial markets, are to be ceased and desisted as unsafe and unsound banking practices.

RAP would or should separate FV impact or reporting of numbers polluted by FV. We need to do that. It is supervisory corruption that the Fed has glorified these ad hoc contracts as ‘financial innovation’ that obscure fraud, poorly underwritten bank loans, and other bad bank credits, inflating their Balance Sheets while linked to financial markets on which the ‘fair values are partly based.

Again something seems mad that the world’s and US’ largest banks were enabled to write and trade instruments early on without any constraint or restraint and now with little constraint and regulators and supervisors failing to take aggressive action to require ‘Covered Companies’ to cease and desist from engaging in writing and trading these ‘swaps’, derivatives and other like ‘over the counter contracts, unless the supervisors and regulators are purposely looking for a reason to allege ‘resolution’ of a large financial institution.

Please haul out and update RAP. That would be bank data that is cash basis, cash instruments and balance sheet items that monthly have real cashflows such as performing loans, and investment banking deals.

Granted, the regulators cannot shed bad policy such as deindustrialization and ‘free’ trade, but the banks can lobby for virtually anything including the stairway to heaven. The largest banks can lobby to get rid of and STOP - Step 2 Bush era deindustrialization, ie off-shoring production into the former colonies of our allies, with all of their commodities we’ve been looking in this way to sleaze, while on our voters wallet when we ‘liberalize’ trade ie, breach the Constitution’s Article 1 Section 8 to import without tariff on those products ie US production taken off-shore, so that the largest banks can lend into an improving domestic economy.

Considering it's not for sick FSLIC thrifts with balance sheets damaged by Reagan/Bush era deregulation and Volcker and Rockefeller's Fed monetary policy to jump start deindustrialization.

RAP based data by regulators from the ISDA banks is to be free of financial innovation or require any bank doing business in the US to have left ISDA and prohibited from writing and trading ISDA and non ISDA but like contracts. They've made their financial heroin so profitable, they don't want anything to disrupt that gravy train proliferating financial expedience, financial recklessness, financial market thuggery and plunder, and financial corruption obscured in these ad hoc contracts they call financial innovation.

NOTE 6 We're forgetting when there are people at levers of power and/or their associates who have a hidden agenda will abuse their roles. If we're going to use the Bush1/Reagan era method of monitoring S&Ls that the OMB recommended then we're going to get the same results, but this time, with our largest financial institutions and what I had thought was our blue chip bank regulator, not the FSLIC. So however we're using that as a method to 'supervise' our largest financial institutions, but without data free of cooking, free of 'hedging' or isolated from that gaming/agency discretion, agency self dealing, or at least isolating *that* from the cash numbers, free of 'financial innovation', the spiffed up name for retread of financial heist. See cites on Bill Black related to the Hirtle and Lehnert 2014 article, "Supervisory Stress Tests".

NOTE 7 http://benfranklinrepublican-gmail.blogspot.com/2010/10/no-barter-in-revenue-especially-for.html

NOTE 8 *http://financial-dictionary.thefreedictionary.com/Synthetic+Securities* **Synthetic Investment** is a combination of investment vehicles that, when used together, can create a profit. An example is an option spread, where one takes two or more positions in option contracts in order to profit from the difference in their prices. Likewise, one may create a synthetic indexin order to outperform a real index. Institutional investors are the main creators of synthetic investments. ***Farlex Financial Dictionary. © 2012 Farlex, Inc. All Rights Reserved***

Synthetic investment. A synthetic investment simulates the return of an actual investment, but the return is actually created by using a combination of financial instruments, such as options contracts or an equity index and debt securities, rather than a single conventional investment. For example, an investment firm might create a synthetic index that seeks to outperform a particular index by purchasing options contracts rather than the equities the actual index owns, and using the money it saves to buy cash equivalents or other debt securities to enhance its return on the derivatives. Options spreads, structured products, and certain investments in real estate and guaranteed investment contracts can be described as synthetic products. While they are artificial, they can play a legitimate role in an individual or institutional investor's portfolio as a way to reduce risk, increase diversification, enjoy a stronger return, or meet needs that conventional investments don't satisfy.

However, synthetic investments may carry added fees and add more complexity than you are comfortable dealing with. And The value and payment stream of a synthetic CDO is derived not from cash assets, like mortgages or credit card payments — as in the case of a regular or "cash" CDO — but from premiums paying for credit default swap "insurance" on the possibility that some defined set of "reference" securities — based on cash assets — will default. The insurance-buying "counterparties" may own the "reference" securities and be managing the risk of their default, or may be speculators who've calculated that the securities will default. http://en.wikipedia.org/wiki/Synthetic_CDO

DEFINITION OF 'SYNTHETIC' A financial instrument that is created artificially by simulating another instrument with the combined features of a collection of other assets.

INVESTOPEDIA EXPLAINS 'SYNTHETIC'
For example, you can create a synthetic stock by purchasing a call option and simultaneously selling a put option on the same stock. The synthetic stock would have the same capital-gain potential as the underlying security. http://www.investopedia.com/terms/s/synthetic.asp) items/instruments and contracts)

NOTE 9 NASDAQ, CME, all other cash securities exchanges in the US and abroad that securities trade/clear cash securities.

NOTE 10 unless Fair Value is derecognized as the framework for US GAAP and US GAAP returns to Mixed Attribute predominately based in historical cost accounting, where the revenues have to realize to cash in the reporting cycle, http://benfranklinrepublican-gmail.blogspot.com/2010/09/accrual-accounting-and-using-eroded.html)

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APPENDIX ADDS B
Comment to **Staff Report No. 696 "Supervisory Stress Tests"**, November 2014, co-authored by Beverly Hirtle of the Federal Reserve Bank of New York and Andreas Lehnert of the Board of Governors of the Federal Reserve System, Washington, DC. http://benfranklinrepublican-gmail.blogspot.com/2010/09/accrual-accounting-and-using-eroded.html

Preface -
I support Stress Test use as a part of an overall supervisory regime which is more comprehensive and full scope than "on-going prudential supervision" of these banks and other large financial institutions". The co-authors Hirtle and Lehnert (NOTE 11) and I agree on the use of Stress Tests, however regulators also must administer **full scope** safety and soundness examinations on these large enterprises in their entirety (regulators have MOUs with each other to conduct investigations in and examine subs regulated by other agencies and regulatory bodies). The Stress Tests as well as the use of the aforementioned examinations would provide more comprehensive oversight and supervision not at the present time administered to the Systemically Important Financial Institutions "SIFIs" and International Swaps and Derivatives Association, ("ISDA") members doing business in the US.

Moreover, regulators championing – aiding and abetting - SIFI and ISDA member financial engineering as if where/is safe and sound banking practices and anointing those items/contracts as "financial innovation" and the writing and trading/tradability of these items and their recognition on the Banks' Balance Sheets has produced, or at least contributed to the individual institutional and systemic 'fragility' which has fouled up our system. In the past, this sort of either ignorance, or willful collusion of regulators to undermine Insured Depository Institutions " IDIs", there to set-the-table for, and later there with eventual buyers of divested SIFI subs during a Resolution, suggests calculated, contrived *moral hazard.* This term of art characterizes regulators which in times past accommodated industry reckless behavior and/or facilitated policy-maker deregulation without important, needed opposition to what would harm the sector and/or individual institutions and by which indirectly or directly the voters are affected.

Perhaps this occurs in part because of the different natures of the regulatory bodies, which presumably Congress could solve. Perhaps it occurs or again is occurring because we're in another purposed inflate/collapse cycle, or in the continuation of the 3rd phase that began with Bush 2 when the 2 previous ones were with his father during Reagan's administration and then when Bush 1 was in the White House after having been Reagan's financial deregulation 'czar'. Some of the same players at the table and again using similar tactics have produced inflate/collapse; we see the "House" trying to 'fix' the decks, the tables, and the rules. I owe Michael Lewis for the analogy (NOTE 12)

Here in the case of Supervisory Stress Tests, the co-authors have both omitted or side-stepped the increased deterioration of asset quality because now ad hoc contracts that were contingent liabilities
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now are by way of CFMA legitimized to trade, which is what is contributing to more fragility and so-called complexity by these financial system versions of public hazard. This isn't just dog dirt on the side walk, but the weakening dam holding back the oceans of offal of these Balance Sheets full of capitalized fraud, these which are non performing assets (like the 'zombie' thrifts). These non performing assets are by the Balance Sheet recognition of traded/tradable financial engineering instruments characterized as financial innovation, legitimized to trade by recent 'deregulation' legislation Gramm Leach Bliley (NOTE13) and Commodity Futures Modernization Act (NOTE 14) without any regulatory framework or restraint by regulators or bank management.

This remains unaddressed by the co-authors, who are economists in the Federal Reserve System, which has supported financial engineering as *financial innovation,* rather than unsafe and unsound banking activities that need to be ceased and desisted, and the contracts unwound or lapsed. In public the regulators omit discussion of this 'run-off' as a way to diminish institutional and systemic fragility, even when asked point blank regarding their knowledge of the reason for the systemic problems and as it were, why not now address them rather than allowing a SIFI to blow-up to have to be 'resolved'. The only reason could be is they have a horse in the race; they have some hidden agenda that will advantage or profit them in some way, again a form of *moral hazard*.

Although if the models used for 'Stress Tests' properly capture financial engineering impact, exposure and risk during various stages and degrees of financial crisis, 'fragility' and its causes could be better discerned using the Stress Tests institutionally as well as systemically understood and 'exposed'. Fragility is not on what the co-authors focus in the article, but do mention monitoring system health in this research on Stress Tests.

This also is a good aim for the use of Stress Tests, unless the Fed wants to ignore this because it chooses to, as it had in the past. Historically, since perhaps the mid 90s when former Chair Greenspan was high on the list of Clinton and Bush 2 administrations' financial engineering supporters, the Fed has played along with/aided and abetted this era's inflate/collapse strategy (NOTE 15)

(1.) Co-authors do claim supervisors can use model data to determine aggregated and systemic condition, although supervisors and regulators have had this ability via computer "tapes" of FR Y-9C and similar FRS and FDIC quarterly reports of SIFI and IDI data – all along regulators have had and have data to compare peers and find problems. The Shared National Credits FDIC data and similar data and gathering of all of that, and used in research and analysis has existed all along. Thus they have failed to effectively use their data all along even of late, and only recently collecting some data on ISDA item exposures and aggregates of those, however at any point could have collected more detailed and invasive data, required the banks to report more of it, in spite of Fed enthusiasm with use of financial engineering, as if this is innovative rather than unsafe and unsound banking practices and capitalized forms of constructive and conveyed fraud. The OCC merely sends a letter saying it's going to expect reporting of X, Y, or Z or compliance with X, and does it without even Public Due Process request for comment.

(2.) Co-authors' claims for using Stress Tests Models as 'substantially changing the nature of the supervisory process' are subtly interesting; actually such a discourse isn't very robust and although is separate from other subject matter in this paper, still is as-compared to a regime of what? No Examinations? Light touch examinations? Full examinations which were done until or ended as of…? Probably one has to understand the history of supervision or the lack thereof to better understand the co-authors' observations. I discuss more about this as a method for supervision and the nature of supervision over time.

(3.) Co-authors' claims also of using Stress Tests results disclosed to the public to ally public concerns, rather than the historic publicly disclosed CAMEL ratings 1 and 2, which when financial institutions are fully examined for safety and soundness, according to FDIC research, the CAMEL now CAMELS rating better describes the safety and soundness, and thus would be publicly appreciated for that descriptiveness. The CAMELs ratings less accurately describe now the underlying condition of unexamined ISDA members (some of which are US SIFIs) which are engaging in writing and trading ISDA and non ISDA but like contracts are instruments which the Fed characterizes as 'financial innovation' however, which are unsafe and unsound banking practices. (NOTE 16)

Whereas this Staff Report is addressing Stress Tests, however reasons are flawed and reckless for relying on Stress Tests as if they're a panacea for SIFI supervision. This era of Inflate/collapse practices using ISDA (NOTE 17) and similar but non-ISDA contracts that came about during 'deregulation' in earlier form prior to, but now including the 90s era of writing swaps and off Balance Sheet ad hoc contracts, of which some are called derivatives, but violate standard banking and investment banking products/services and violate what ordinarily would be characterized as safe and sound banking.

For the largest US financial companies and foreign broker/dealers operating in the US, the New York Fed's aggressive dealer surveillance on those was ended in 1993 by NY Fed President Gerald Corrigan before he became employed by Goldman Sachs (NOTE 18).

Of the largest banks – of which after 2008 Morgan Stanley and Goldman are included – full-scope safety and soundness examinations stopped in the mid 90s or light touch supervision began then for what are now called SIFIs to enable their facilitation as counterparties of Deutsche Bank and other German financial intermediaries experiencing the cost of German reunification and the impact of that on borrowers and those credits to which the banks already were exposed and would be going forward.

This research paper discusses using Stress Tests or quantitative review to proxy for when and instead of these ISDA –SIFI-C-CAR class of FRS member banks no longer are administered effective, more involved, comprehensive supervision including having full safety and soundness exams by FDIC or OCC and Fed examiners. (NOTE 19) THUS – WHAT IS "STANDARD" with regard to supervisory procedures whether for capital adequacy or for the overall operating condition and performance of the SIFI. This gets us to having to rely on something somewhat insufficient ie 'Stress Tests'. This perhaps is about what co-authors' were referring to 'change in the nature of the supervisory process'. Perhaps we're seeing another step down into more de-regulation which contributes to more institutional and systemic 'fragility'.

With Dodd Frank legislation, the former OTS was combined into the OCC. "FIRREA" 1989 (NOTE 20) turned former Federal Savings & Loan Insurance Corporation and its supervisor into the OTS.

Presumably the Fed has established better models than those used and championed by the Office of Management and Budget – the Executive Branch financial planning department – early during President Reagan's first term. Reagan had GHWBush appointed as head of the White House's (Executive Branch) deregulation task force (NOTE 21).

Was 'deregulation' and associated 'tools' such as computerized tests then and/or now (this) incompetence, or was/is this in order to benefit a few insiders, this as a shrewd, slick longer term *free-rider* plan yielding years of a gift-that-would-keep-on-giving a gravy train such as lobbying money, lawyers fees, bogus-faux 'profits' to ISDA member managements, more convoluted complex financial legislation and regulation/'de-regulation', eventual consolidated ownership of the US financial system out of the hand of the many, into the hands of the few, along with large foreign players also controlling US wealth and turf ,ie, wealth transfer. Like the financial version of GMO, which has been a real yield to the healthcare and medical system. (See NOTES 1,2,4)

While head of Reagan's Deregulation task force, Bush recommended to the financial regulators to use computer analysis of the thrift financial statements, rather than the ordinary practice of having examiners fully examine the Savings & Loans for safety and soundness (NOTE -22)

The use of models ie 'computer analysis' in supervision of thrifts didn't control unsafe and unsound 'banking' practices of thrift managements, nor the negative net worth problems that had grown with little diffusion of it. (NOTE 23)

Passage of the 1986 Tax Act eliminated the tax deduction of interest for mortgages on non primary residences; thrifts that had speculatively acquired, developed, constructed 1-4 family and multi-tract residential properties suddenly were left with a great deal of property they were unable to sell (NOTE 24). Failure to examine these depository institutions probably off and on for a decade contributed to teeing up their condition and seizure, ie 'inflate/collapse'. William Black, "The Best Way to Rob a Bank is to Own One, pgs. 1,33. Black also states that the FHLB – the regulator over the Federal Home Loan (regional) Bank System Chair Richard Pratt fought with the Reagan Admin for more examiners but was denied them.

Meanwhile in using 'stress tests', we're still risking verifiability if at the present time the enterprise is operating in a safe and sound condition. Without full safety and soundness examinations by examiners including their producing a Cash Flow Statement as in the past that Federal Reserve System examiners produced in order to determine source and use of funds when they examined the Bank holding companies in their respective districts, we don't have independent 'audit' from management's SEC reporting (NOTE 25, 26) Stress tests I consider still insufficient verifiability if the enterprise is at risk for collapse if the financial markets correct and all the instruments that have to be fair valued on the banks' balance sheets are also going to correct in value downward and with it take down the banks' balance sheets. Largely for this reason the Fed (and FDIC) engaged in at least 11 liquidity facilities and its 3 versions of quantitative easing (with earlier strategies in 2007 to shore up banks' balance sheets and capital adequacy.

But at least 'stress tests' and associated forecasts of a SIFI's condition in the case of drastic economic scenarios somewhat helps rather that completely allowing SIFIs, SCAP, etc financial institutions from engaging their activities without ANY sort of oversight and constraint in any way especially those writing and trading off and on Balance Sheet ad hoc contracts of any sort ie, derivatives, OTC contracts, Swaps, and financial engineering in general.

What happened to policy of administering full Safety and Soundness Examinations –an operative question - and requiring the examined to submit Semi Annual Business Plans including complete forecasts under various economic scenarios which apparently hadn't been happening. But for a few recent years finally we're getting SCAP and CCAR and now DFAST Supervisory Stress Tests iterative process from ISDA/SIFI and largest regional SCAP filers? Now how is it that Dodd Frank calls for this and further the FDIC and the Fed are requiring Resolution Plans as if the regulators are going to "resolve" these or among these financial institutions?

This is neither a naïve nor rhetorical question. **This is an operative question. How are we HERE NOW** with FDICIA 1991's Prompt Corrective Action ("PCA") and legislation and regulation from 2 previous financial crises before the last decade's credit bubble and associated 'financial crisis' - inflate/collapse syndrome/Enron strategy among the ISDA-SIFI group of largest financial markets participants? (See NOTE 19)

Moreover, were the co-authors involved in evaluating the stress tests and/or the models? Were the co-authors skilled at developing complex spread sheet model forecasts of large, complex financial institutions? Had the co-authors worked for the New York Federal Reserve bank or elsewhere in the Federal Reserve system when distressed depository institutions under Cease & Desists or perhaps

MOUs, were required to submit capital plans accompanied by complex spread sheet models forecasting the health of the financial institution that under different economic scenarios and interest rate environments, and also would reflect post capital infusion and/or sour assets work out? These complex spread models also sometimes included GoodBank/BadBank scenarios models in spreadsheets that would forecast the management actions so as to avoid Resolution- shut down/closure - by the regulators.

At the Board of Governors and at the regional banks, staff analysts and economists produce research. Other colleagues of the co-authors have ignored or failed to address or at least research and analyze multilateral policy problems which also have contributed to producing regulatory policy problems and risks for moral hazard by the Fed. **Staff Report No. 696** doesn't address macro/multilateral policy problems as well as the 'grass roots' regulatory conflicts resulting from higher level policy problems, even the failure to properly administer full Safety and Soundness Examinations, in their regulatory reports collect and require reporting of better and more appropriate data, or effectively administer PCA including Cease and Desists at any capital level (NOTE 27, 28, 29)

<u>Section I. "Stress Testing as a Risk Management Tool",</u> mentioned the Basel Market Risk Amendement finalized in 1995 which suggested using 'Stress Tests" to augment VaR (which originally had been designed for equity portfolios) measures of Risk Weighted Assets. As of that time, in Europe there wasn't anywhere near the robust oversight, supervision and examinations, while in the US, we had a history of strong, full regulation, annual, full on-site examinations that wasn't formalized in the EU for its own purposes. In addition in the EU to their government back stops, their national champions operated with little accountability although in time their pensions and board directors would provide some oversight but miniscule compared to the US. (See NOTE 21)

<u>Section II "Stress Testing as a Supervisory Tool"</u> are discretionary versus full safety and soundness exams. In Europe all of this sort of oversight is discretionary. Very little over there is transparent or public. In the era of 'financial innovation', OCC on–site examinations of, and assessing systems' process for "risk management purposes" was TO WHAT IT WAS LEFT, after being forced aside from full safety and soundness exams of SIFIs including what was product was produced by those processes, and review and tests of quality of asset, loans, investment portfolios. Fed and higher level protection for 'Financial innovation' thwarted the OCC and the FDIC powers to supervise and expect full cease and desist of writing and in time legitimized trading swaps and other types of ad hoc contracts without any regulatory framework. Co-authors actually mention the 2013 OCC *Handbook* instructs OCC examiners are also to examine for a supervisory regime that ensures that its examiners recognize and assess risks posed by all significant lines of business". As the regulator for the national banks, the OCC's *Comptroller's Handbook(s)* from earlier eras probably were more like those of the FDIC and Fed, and would not have been anything less than appropriately rigorous on full supervision of the national bank with that regulator having MOUs with other regulators to address potential problems and associated risks that were found in annual examinations by its examiners.

Exam reports also were CONFIDENTIAL but are what determine if Management's score "M" in CAMEL confirms the other numbers in CA-EL. There was no transparency on the exam reports; transparency was with the Call reports and FR Y9-C, LP and Thrift Financial Reports available 90 days after the regulators required their member banks to file and excluding the Slow pay loans from 30 Days to 89 Days. Again, CAMEL 1 and 2 banks could report their ratings, while "M" was confirmed when examiners fully examined the bank and contributed to determining if CA-EL with "M" also were more descriptive of the bank's true health.

Regulator Discretion also gave deference to what degree of quality they found in "M", but unless the CA-EL were good, again the annual examinations confirmed what discipline or praise the regulators would administer to that bank because of the decisions and 'practices' in which management was engaging.

Furthermore, when 'Financial Innovation' in the mid 1990s began enjoying greater traction in Europe, while also in the US Financial innovation' helped to facilitate NAFTA and deindustrialization, probably at that time that contributed to and was used for marginalizing the FDIC and OCC examiners to what we're seeing and the co-authors mention. (NOTE 30)

These products were included in models that role up into line items in the forecasts from the Stress Tests, pre-'SNAP' and pre-CCAR? Examiners should have been all over these products, questioning and disciplining the nature and legality of these synthetic structures including referenced mortgage paper of a probably defaulted mortgage in one case reference over 900 times for some serious agency abuse/self dealing. NOTE 31

Co-authors mention regulator hopes for increased credibility - I suggest are vain - that public disclosure of Stress Tests and attempts to apply discipline given 'Stress Test" results. We who understand saw regulator failure to effectively regulate SIFIs and in some ways the entire sector now for nearly 2 decades. We who understand saw the early 80s and late 90s periods of de-regulation and legitimization of constructive and conveyed fraud that on banks' balance sheets became capitalized when US federal legislation (GLB 1999 and CFMA 2000) allowed these contingent contract items to trade WITHOUT ANY REGULATORY FRAMEWORK, LIMITS OR OVERSIGHT, and still now called *financial innovation,* when all it's been is slick obfuscation of different natures of fraud, do not get credibility for the regulators. At this point with the bloodlust to take out ie 'resolve' a SIFI using the Bear Stearns/Lehman tactics – because a crisis probably will be created to trigger regulator *Night-of-the-Long-Knives*, very little from the regulators is credible, and for which they can't be litigated.

They failed to administrate or avoided robustly administrating PCA at any capital level including the MOUs and C&Ds they needed to issue to these SIFIs for the typical reasons that get those; all along much of the trouble has been the financial engineering. In a strong, long market correction 'financial engineering' aka *financial innovation* contributed to bringing down Enron. That the Greenspan Fed had anointed these contracts of conveyed and constructive fraud as *financial innovation*, the Fed from that time supported as such deprives the public of high quality, credible regulators.

This regulator and other levers of power co-opted the other regulators to support, but again a great deal of this sort of capitalized forms of constructive and conveyed fraud that warrant C&Ds. Rather than believing a poorly managed Lehman led to its 'collapse', neither Lehman nor Bear Stearns were managed any differently nor in any worse condition than these others that now are up for the same targeting because the conditions are the same: the domestic and global economy are in bad condition and larger competitors and their powerbrokers think there are too many mouths feeding at the shrinking pie. The same tactics will be used to SPoE a SIFI when it suits those to whom the FDIC and Fed answer.

The Germans and the Drahgi group may do the same to a few names in that footprint, and already have destroyed the banks in Iceland, Cyprus and Portugal. Others which are weak but are the national champions in other European countries are on the radar screen for potential 'resolution'.

For the obscured but among the true reasons for Lehman's shut down, all SIFIs should take note at least to avoid relying at all on borrowings and derivatives/ISDA-non-ISDA contracts writing and trading, in order to avoid Balance Sheet hits in a market correction and reasons for the FDIC to get antsy on Balance Sheet fragility in the event of a market correction and risk to counter-parties. Examiners, their Cash Flow Statements, and quarterly financial filings would reveal cash flow origins and quality, but without examinations, we're getting for a SIFI, what set up Lehman to for the Paulson-punch using the New York Fed and JPMorgan.

Lehman former employees and those of a SIFI or SIFIs put through resolution also should dislike this: we then had and now have had more light touch on the powerful financial institutions, flawed legislation such as Dodd Frank, a failure to repeal deregulation legislation such as the Commodity Futures Modernization Act with associated regulation including Orderly liquidation Authority, where disparate treatment will occur to some stakeholders ahead of others such as the pensioners and former employees and/or current employees with SIFIs' stocks in their 40(1k)s. The wealthy, foreign, or the institutional investors the FDIC will court, which will be among those made 'whole' ie receiving handouts of sorts by FDIC/regulator of the 'resolved' SIFI, but get covered for any loses for their investment in SIFIs prior to SIFI closure or taking risky assets post closure that the FDIC would offer protection from loss in order to lure them to the table (NOTE 32)

DATA ISSUES and MONITORING AND TRACKING ISSUES THAT ARE CHARACTERIZED AS SYSTEMIC

As I'd mentioned, I had urged the Fed to separate non cash impact and associated fair value impact from what themselves were producing real cash flows (see NOTE 27)

In effect the Fed is required to and collect the data on its members. Co-authors mention the Fed is using these Stress Tests to gather high quality strategic data and drill down –although before the mid 90s and German reunification and swaps and the like, it could. Structured synthetic product using CDS that referenced non performing, non performing mortgages, the FDIC, the Fed (and I am assuming the OCC) said they were not able to constrain, restrain, examine or prohibit these activities by the ISDA banks/investment banks. This representation contradicts their examiner handbooks and website materials that say they have full reach into any depository institution, bank holding company, and also S&L Holding company, which they 'supervised' and legally controlled when it suited them (NOTE 33).

For the co-authors to suggest (II, a. Five, as well as b. 1 "Supervisory Scenarios") that Stress Tests can be used to assess the resiliency of the entire system sounds naïve when one has a fairly long institutional memory and knowledge of the last 20 years of the US and EU banking sector. I'd mentioned that for decades, the FDIC gathered, analyzed data and that contributed to FDIC supervision on the IDIs. As I've said the FDIC had full reach into the entire operating activities and 'subs' of the insureds. What were considered permissible activities, the FDIC policed all of the activities and performance of that; the Fed had access to ALL OF THAT INFORMATION to use for its own research and analysis purposes on the financial system. The Fed itself, as I'd mentioned collects a great deal of data and has for decades on its member banks, including full examinations and cash flow statements but on the SIFIs it no longer had been doing this since? The mid to late 90s? however with little respect to oversight and thus data collection on and of '*financial innovation'* that has contributed to systemic fragility ie aggregation of weak links - ALL links over the entire system. Meanwhile, many of the largest ISDA members are US SIFIs with counter-party exposures to each other and largest EU SIFIs. Like Lehman and Bear Stearns, among themselves little protects 'Judas' tactics to take out a counter-party, if that were the one to be 'resolved'.

In this paper, co-authors' light treatment of what's happening with the SIFIs doesn't really touch the grave and deeper problems and to which the Fed is party and co-conspirator and all along had the ability –or certainly the power - to see conditions of both system and individual financial players comprising it. (NOTE 34)

With regard to "Disclosure" of Stress Test results (II, b, 2) and hope for bolstering market confidence and fearing investor rather than depositor runs reveals where today we've got *hired-gun* regulators who expediently care more about the wealthy and those with means to invest and institutions which use the markets to turn their paper rather than the now diminished reason for the capital markets to facilitate and provide capital to industry and commerce.

Versus disclosing underlying components of capital rather than only *top line results*, consider that all of these institutions are publicly traded. ALL OF THESE have to publicly report using sophisticated, detailed financial filings to present their financial conditions and a great deal else. Even the regulators make available much of the regulatory filings that SIFIs are required to report. The regulators perhaps should disclose required parts of the Basel II compliance materials that it keeps confidential. Limited confidentiality is capricious or what is disclosed is too flimsy to give any real credibility to what the paper is saying for which it hopes.

Meanwhile the Balance Sheets packed with or exposed significantly to ad hoc contracts match book or otherwise have most likely NOT been examined, and with CAMEL ratings that would foot with a fully examined enterprise. Even if management did write OTC and derivatives contracts that co-authors are saying would be contingent on the Stress Test results, these banks and their 'financial innovation' enjoy kid glove treatment and regulators wouldn't know if these self-dealing contracts were written.

Well-constructed, robust Stress Test models would demonstrate and forecast outcomes of enterprise and subsidiary performance, financial and operating health. Connected however, to the financial markets by trading values and 'fair' value is at the very least foolish that that itself isn't punished for unsafe and unsound or regulators punishing banks engaging in writing and traded large numbers of these contracts of capitalized constructive and conveyed fraud, that are financial markets connected and risk exposure to those conditions and directions, while also are not safe like well-written, performing loans with those associated and characteristic cash flows.

Bank management anyway often had been managing for the 'short term' because of incentive plans that may be connected to the bank's stock and/or the market connected metrics that encourage decision making towards the short term. That in stable financial markets, management has been prolifically writing these ad hoc contracts for easy profits (in which the true costs of these legitimized (at White House and multilateral levels) deceits-frauds which are dislocated, separated from their original 'source' of loans and credits like those, and 'allocated' to fall on the public or in European countries given government back-stop support) regulators have aided and abetted.

Little regulator discipline against or management discipline of abstaining from these enfragilating, unsafe and unsound banking practices has been happening at the well capitalized SIFIs, especially while the Fed has characterized and supported these contracts as '*financial innovation*' when from the beginning of their time in the mid 80s, these items have been contingent contracts, and/or not considered safe and sound banking (off-Balance Sheet) practices and which the FDIC monitored carefully and strictly limited. But all along there has been regulator and management rhetoric that have kept the public and investors 'calm'; negative stress test results which probably do and would result without quantitative easing for stable liquidity climate, but most likely would not great investor runs except those who sour on this particular group of names. And some Investors/market participants may be naïve and rely on 'Stress Tests and other recent 'practices' or 'updated' practices by various regulator, and co-authors' observations about that get my agreement. In how the health has eroded of the largest companies in the financial system, also the credibility and the political accountability of the various regulators have eroded (NOTE 35)

3. Capital policy. If the co-authors state that authorities must decide how to handle capital shortfalls, they'll have to backtrack on a great deal of Fed and regulator supporting what contributed to the capital shortfalls. Co-authors also are not identifying who are the authorities and one also realizes the Fed puts itself behind these Authorities and those interests. (NOTE 36) WE hear what those authorities want: These enterprises also are among the world's largest with many customers and investors all believing and lead to believe these are viable going concern, business enterprises, even if those customers and stakeholders dislike those management's decisions. The regulators have avoided disabusing the markets and customers of SIFI viability other than having FSOC mark them as SIFIs and requiring them to file Resolution Plans, although by FSOC companies are identified as SIFIs and are required to file

Resolution Plans. In the case of this Staff Report, when in looking at what I've mentioned and whether Stress Tests contribute to achieving a complete risk picture, perhaps these tests are doing little more than re-arranging the deck chairs on the Titanic NOTE 37

Perhaps while these enterprises are aggressively writing and trading fragility the Fed has liked calling 'financial innovation', Resolution Plans are held up as the only other accountability and 'comfort' the regulators can 'give' to society. If left be, FDIC and OCC may have continued to fully examine these banks and Administer discipline with MOUs, and C&Ds. WE see that 'authorities' impeded the block and tackle regulatory process because of higher levels than the regulators to which the co-authors allude. THIS IS PART OF THE FLY IN THE OINTMENT GETTING US TO CRISIS AND FRAGILITY, because these authorities think they don't have to feel the pain… and thus also disparate treatment of 'investors' talk happens from regulators charged to administer 'resolution' to if a SIFI gets into 'crisis' condition. This also by way of lobbyists produces flawed corrupted legislation that benefits by feeding the few, while many others are left 'groveling', also producing asset transfers to hands of the few, from the hands of the many. Recent Congressional accusations of 'captive' of the New York Reserve Bank have been discussed on broadcast news, and Goldman Sachs for 10 years or so employed the current President of the New York Federal Reserve Bank. The local reserve bank has always done that, chosen someone from wallstreet or a wallstreet designation. The Board of Governors in Washington is reconsidering its supervision/oversight policy framework, rather than allowing the district reserve banks complete control over member banks in their districts (NOTE 38 and other material).

4. **Balance Sheet:** Ah, hello: the Emperor isn't wearing any clothes. Income Statement in part is fed by what management performs and gains and or has Balance Sheet recognition. In any high quality, responsible interactive spread sheet model and presumably these Stress Tests are high quality interactive forecasts done in financial software, driven by actual as well as assumptions. In the past and given depository institutions' banks are insured by the FDIC, it's assumed meanwhile that all the reported Interest Income from performing loans which, in their accruing, realizes to cash in the reporting cycle, as if it all is from borrowers paying interest and principal on a monthly basis. This isn't the reality while management with little constraint and regulator discipline against THIS specifically, can write and trade these financial innovation items – profitable from fees, but banking versions of product liability because they're capitalized fraud (NOTE 39)

Co-authors also assume that the SIFIs are charging off sour loans but are replaced with performing loans. Given all the derivatives, swaps etc that SIFIs write to obscure soured, souring and writing flimsy loans, what says those marginal loans aren't still on the Balance Sheet? Presumably management established reserves against sour loans, or that loans on cash basis or restructured are returned to performing status, but still are producing cashflows.

And the Balance Sheet also has these items among its assets: whereas some of those swaps have associated loan-like cash-flows, many swaps as well as other ad hoc, unregulated or marginally regulated financial engineering contracts of non loan (like) nature, DO NOT have loan-like, monthly cash flows. These contracts need collateral posted against those while those are being traded. Sometimes the posted collateral instruments themselves have cash flows, but these are short term periods and who owns the cash flows? lender? Or the borrower?

What sits in Available-for-Sale and Marketable-Securities accounts have to be fair valued, whether or not they are sold or 'traded'. Trading can mean they were allowed to be exchanged for collateral, and thus are a barter transaction. Banks actually should NOT engage in barter, but that's not the point of this, although the Stress Test Models also should be reflecting these barter 'transactions' and accordingly address if they've been inferior transactions that in effect are little more than liquidity arrangements, and that entail cost externalities for which agency self-dealing can get cover by way of another 'free-lunch' arrangement. Redux of Enron and Dotcom era micro-market/inflate-collapse problems that SIFIs really SHOULD be PROHIBITED from doing.

Run-off of derivatives and OTC contracts is a GOOD THING. Performing commercial and industrial loans sadly face higher risk weights, and in US, SIFIs write those, syndicate and/or securitize them – off-balance sheet. Co-authors noted that asset run-off shrinks the Balance Sheet, but again run-off the 'fragility' rather than the performing commercial and industrial loans. Run-off Basel III; if Congress and President Obama can suspend or alter compliance with parts of Dodd Frank, then they can alter 'compliance' with Basel at all (NOTE 40).

While these contracts were off-Balance sheet and without legitimization to trade, they faced little constraint but weren't on Balance Sheet and in some ways couldn't cause the trouble they now can as recognized items on Balance Sheet when legitimized to trade. I don't think the regulators to Congress rejected Commodity Futures Modernization Act and other over the longer term de-regulation actions. Nor to FASB or the SEC did regulators reject reporting that would weaponize deregulation. Stress Tests are more the same of that passivity or incompetence or occupational fear to brand systemic risk for the ways it is birthed, forms and prospers. Again this is moral hazard and models, Stress Tests research papers cheerleading their use appears insolent and ACTUALLY INVESTORS SHOULD KNOW THIS AND HOLD ACCOUNTABLE THE FED, FDIC, OCC, AND SEC AS WELL AS CONGRESS AND THE EXECUTIVE BRANCH rather than being played contemptuously by those constituents especially the wealthy and their institutes as to entreat for their wallets' size to get them to the table.

If the regulators were allowed to FULLY examine these enterprises, and require reporting on those 'free-lunch' agency abuse situations that enjoy coverage in other ways at the bank, more than likely there would be at least MOUs against this sort of activity.

The authors' Staff Report doesn't address ANY of this, as it generally does discuss the value of the SIFIs satisfying the Stress Test requirement for supervision purposes. But I urge a more probing discussion and analysis in order to garner more comfort for this limited, kid glove interaction between the Fed and the SIFIs.

Moreover, thank God the SEC requires Cash Flow Statements. Where are those to be required by the banking regulators AND does the Stress Test exercise address the source of the cash flow? Are most of the Cash Flows produced by high quality Net Income and other operating activities? Or, are the Cash flows produced from borrowings even the liquidity achieved from collective and aggregated collateral posted to engage in repo transactions, and assumptions of infusions by investors. These would be Preferred stock of sorts and Notes regularly issued, private non regulator funding facilities that the Cash Flow Statement would reflect.

c. Potential risks to using Stress Tests as a supervisory tool. Citing articles authored by Bermanke 2013 and Schuermann 2013 which discuss how SIFIs may fall into model 'monoculture', which were they're attempting to alleviate risks, in or among asset classes, they'd increased correlation with that to which they'd changed. They're all connected as counterparties, but also by way of the swaps and other OTC and derivatives contracts that not prohibited from writing and trading.

d. Other approaches to stress testing – consider using a percent of Balance Sheet that has to be fair valued with various financial market scenarios, and the watch the percent of Balance Sheet exposed even if matched book to non loan items (those without loan like cash flows), that rely on borrowings and/or collateral that take hair cuts without and without crisis scenarios. Include also 'swaps' such as the 'hedges' connected to the loans, that the regulators had avoided requiring memo item reporting in number, types and aggregate value for Balance Sheet and Income Statement impact, as these as affecting the loans to which they were attached were reported in Interest Income without separation, as if the loans themselves were also with their un-detachable, Siamese twin hedging. In that the Fed had avoided reporting of this 'financial innovation', management didn't track it and/or wouldn't have reported it, wasn't required to report it and avoided the consequences of the problems produced by hedging reporting and/or isolated risk issues that aggregate to more complex risk problems.

Consider also requiring runoff including expiration of these instruments, contracts as a preferable means to shrink the balance sheet.

III. Stress Testing in supervision/a. Supervisory testing during the financial crisis. Authors mentioned that SCAP was administered beginning in 2009. What was done before then and after the time when full safety and soundness examinations of the largest banks, or SCAP class of banks was stopped? Was there NOTHING at all, during that time? Was there nothing institutionalized other than off-site surveillance by way of tracking their condition through Call and FRY 9-C and Basel II filings, some of which is confidential? Was there nothing from mid 90s (and the end of full examinations?) through 2009 then C-CAR and what Dodd Frank has 'required'. "What, me-worry? Where are there words?

When these banks began SCAP, how accountable did they have to be? How much did the market correction really impact their balance sheets (given their assets sizes) that wasn't made public? How much did they ignore of off balance sheet activity included re-hypothecated non-performing mortgage and other asset paper that could be re-hypothecated? How much given the market correction was the structured synthetic product including that which I mentioned, going to exacerbate the capital and liquidity problem? When the non performing mortgage paper was re-hypothecated, and thus waterfall of cashflows was not going to exist, and the regulators mostly like knew this along with management, how was this handled by the regulators? And how if it was hidden in the SCAP, was it handled with regard to either disclosure and charge-off/collection or fully covered by the SCAP filer the same way Citi and Bear Stearns had to pay out on bogus funds?

That SCAP is said to be an innovation and departure in a way plays the analyst community for fools (because analysts who review the data reported to the regulators and can make some or significant assessments of true condition), while observations about making public the results of the SCAP as if non analysts are those that regulators are targeting is debatable, when it's the analyst and expert community who have the most influence on perception of bank safety and soundness. Moreover, all capital plans, if this is what they'd been filing before SCAP unless SCAP was it, have forecasts from which management and regulators could have some future concept for condition. (NOTE 41 Other Material related)

b. Stress Testing in on-going supervision. Was there nothing at all from the mid 90s until 2008, other than filing Call Reports and Y-9Cs, and eventually at some point disclosure for Base II compliance. There were very few banks closed over this time while also very few MOUs and C&Ds administered to the SCAP group as well as throughout the industry.

Are there scenarios for multilateral situations including failure of a large EU counter party? Are regulators looking for the Banks in their stress tests to diminish Balance Sheet exposure to fair valued items and have more items such as performing loans, high quality business, investment banking? Is there ability for the stress tests to address impact on cash vrs non cash/synthetic items? Also of a crisis that would alter cash flows of instruments and with counterparties? Are the Fair Values affected by financial market levels although this probably would be financial market corrections. Co-authors mention that the Fed's firm specific data gets down to the loan level. The FDIC captures Shared National Credit data, and the Fed has access to that data. Was there attempt to measure standard credit risk? How do they get that without derivatives and swaps affects? There is a new estimated credit impairment model; were projected loss rates using the new credit impairment model. To the FASB my public due process comment opposed their proposed framework that is based on a great deal of discretion rather than actual losses. I supported the practice of reporting realized losses (such as loans that the borrower after 90 days has failed to pay triggering management marking the loan as non accrual) rather than reporting estimates of potential credit impairment. Agency self dealing that writes flawed credits that would attract financial reporting for which users of financial statements and speculators demand for an estimated credit loss model reflects the financial crisis, not a correction to it. Regulators examined for poor/weak underwriting and material credit quality problems, which again reflect the financial crisis, rather than correcting it.

To what also were the co-authors specifically referring when they stated that “The models make very limited use of fixed effects or other techniques intended to capture persistent cross-firm differences that cannot be explained by other variables”. Are they measuring with attempts to see impact of derivatives and swaps on the loans to see what may happen when FVd in a market correction?

1. ***DFAST: Innovative Disclosure.***

Pg 15: “The Federal Reserve’s projections of total assets and other balance sheet components are made under the assumption that credit supply does not contract during the adverse and severely adverse scenarios. This assumption tends to result in higher levels of assets and risk-weighted assets than projections than that do not enforce this assumption (Board of Governors of the Federal Reserve System 2014b). This assumption is also consistent with a macro-prudential view of the DFAST stress tests, in that the results measure capital strength relative to the benchmark that banks should continue to be able to lend to creditworthy borrowers even in stressful economic conditions. “
For ease to achieve new Basel 3 ratios (and in part because there isn’t great deal of decent business out there in a weak US economy which Alan Greenspan confirmed around 30Dec14 on Bloomberg Radio), these enterprises already have been shrinking their balance sheets and all along have been shortening and/or shutting down parts of credit facilities. Granted unused, these are off-balance sheet. The Fed doesn’t assume Credit supply contracts in the adverse and severely adverse models? Do banks lend to credit worthy borrowers in stress market conditions?

With Basel I anyway, commercial and industrial loans carried full capital weights. So perhaps the Fed assumes what little anyway that remains on the Balance Sheets continues to receive favor. Very little lending occurs or improbable except to the largest, most important customers. The last crises show that often borrowers face difficulty when banks face difficulty. Banks also are the largest borrowers of themselves. Now these banks use CLO’s however, syndicated loans have existed in the US before the Fed was established. (NOTE 43)

Credits’ performance anyway also now according to the FASB has to be estimated for impairment and accordingly adjusted on the Balance Sheet with footnote description of assumptions on discounts applied to achieve what’s recognized. I had opposed this and urged remaining with realized loss (ie when borrower fails to pay as of 3 months – 90 Days - or 1 reporting cycle) as the method for recognizing non performing and/or classified loans. When SIFIs have to use the new credit impairment model, they will have to build those assumptions into the Stress Tests’ Forecasts, however this paper also omits mention of that.

This also sounds like the Fed is waxing too casual and thus sanguine while in the set-up of a SIFI to get blown up to get resolved by the FDIC. Even though that no specific supervisory actions are attached to DFAST results, and the Fed and FDIC , other financial regulators all have significant and valuable data for capital strength assessment already though BHC PR and FRY 9-C data, and Call Report and examinations, and cash flow statements constructed by Fed examiners. Whether or not there was or has been regulation, nothing actually STOPPED the Fed and FDIC from subpoenaing or issuing MOUs to obtain reporting of the derivatives and OTC contracts exposures, which all the largest counterparties and amounts to each.

Again when de-regulation from full scope examinations and focused, high quality oversight but now eroding to monitoring mostly by using computer models in the past has produced inflate/collapse from the first time, commencing with Bush 1 having the FSLIC use computer models to review those thrifts for the first “thrift crisis”. In this research paper these sophisticated computer models are suggested that they monitor SIFI financial condition and systemic financial condition in order to solve the problems of systemic risk. **In part because of 20 years of de-regulation as well as multilateral conflicts of interest and regulator conflicts of interest, I do not think this time that things are different regardless of the peer group.** Paralleling our current juggernaut of heist, Bill Black uses the expression, “Control Fraud” and observes that it has its roots in de-regulation (NOTE 44)

2. ***CCAR: Innovation supervision*** in perspective sounds like throwing gasoline on the fire. Where were the Cease & Desist orders on all of these financial institutions that engaged in unsafe and unsound banking practices - what’s brought them having to provide Capital plans with ‘Stress Tests’ although they have to comply with Comprehensive Capital Analysis and Review “CCAR”.

This monitored group of 19 banks any way includes the SIFI group that has to file not only capital plans according to the November 2011 Fed rule requiring capital plans from 19 largest banks, but this group was Supervisory Capital Assessment Program “SCAP” of 2009 and then became the CCAR group which has to provide the Stress Tests. And include also that these have to file Dodd Frank Act “Title 1”, “Resolution and Recovery Plans” which similarly in the past mean that they’d been administered a Cease & Desist order for unsafe & unsound banking practices and that they were in danger of failing generally from serious capital inadequacy with CAMELs ratings of 4 or 5.

With regard to these models, these only capture some (perhaps small) of the OTC and derivatives exposures at the present time. Disclosure requirements however, have probably improved from the first SCAP and CCAR filers, and from nothing at all as of 2008 when Lehman was shut down. **Something is better than nothing at all, although until the early mid 90s they all were administered full scope examinations as well as off-site monitoring by way their quarterly ‘RAP’ filings.**

The ‘Stress Test’ results are made public, whereas Examinations’ reports and results were kept confidential, but when annual or so full scope examinations were administered to all IDIs, there wasn’t need for TARP, liquidity and Quantitative Easing strategies by the Fed, and the largest US financial institutions having to file their Resolution Plans and Capital Plans as if they’re on the *glide path* to get taken over/seized – also known as ‘resolved’. From off-site reports via Call, FR Y-9C, etc, in conjunction with full-scope examinations used to confirm CAMELs ratings, banks scored 1 and 2 could disclose their scores, whereas lower scored banks avoided disclosing their CAMELs scores.

During the years however from the mid 90s through the present time with geometric growth in ‘financial innovation’, the Fed all along however, has had access to necessary data as well as tracking what were on the financial statements for Call Reports for the Insured Depository Institutions “IDIs”, the FR Y-14 for foreign and FR Y-9C and more recently, FFIEC 101 since approximately 2006 for Basel II filers (NOTE 45).

“Financial Innovation”, ie, matched books of derivatives and OTC contracts such as Credit Default Swaps and other Swaps comprise a significant amount of Balance Sheet of most of the SIFIs, while the open un-netted exposure may not be large but assumes, some Rube Goldberg system ‘fixes’ that do or don’t include quantitative easing, that do or don’t include feeding from Fed Funds and the Overnight Window? That these instruments trade, can be traded and have to be fair valued, puts these Balance Sheets at greater risk outcomes whereby results occur which cannot be controlled for given the assumptions (NOTE 46)

Hirtle, p17: **“…and share issuance; its planned capital actions for the next nine quarters under both baseline and stressed economic conditions; and a set of company-run stress test projections under three scenarios provided by the Federal Reserve (baseline, adverse, and severely adverse) and under two bank-determined scenarios, including a baseline and “BHC**

stress" scenario intended to stress the firm's unique vulnerabilities based on its portfolio and business focus.
The Federal Reserve reviews the capital plans submitted by the bank holding companies and evaluates their processes and governance against a set of supervisory expectations and the requirements of the Capital Plan Rule (Board of Governors of the Federal Reserve System 2013a; Clark & Ryu 2013).

Where is the FDIC included in coordinating this? The co-authors should have mentioned coordination with the FDIC and OCC and/or States' departments of banking on 'results'.

That also may be of value, in the time that the SIFIs have had to comply with the various Basel, how/what has been the condition of their safety and soundness, what would historical stress tests reveal.

Let's also review in historical stress tests over the time of the change in US GAAP reporting framework from more historical cost in the mixed attribute reporting model to a reporting model now one more of Fair Value, and the SIFIs Balance Sheets packed more with financial innovation instruments that have to be fair valued often shadowing the condition of the financial markets. Forecasts of negative scenarios are interesting and true of some help going forward.

That's a lot of examiner/regulator time and money, but the regulators including the Fed are in a position to have the means to pay for this. The OCC, the foreign regulators, and the various state regulators would be copied on all the reports. Having disrupted even federal legislation (FDICIA 1991) calling for annual full scope examinations of all IDIs and if there are jurisdictional issues that get the Fed and the SIFIs Teflon from this supervision and oversight, however, and co-authors mentioned that computerized supervision such as DFAST and CCAR stress tests results ushers in rules based vs 'discretion based' oversight, because of results provided to the public, this is disingenuous. (NOTE 47)

IV. Conclusion:
Stress Tests for 'rules' and 'public support' is a sort of a *bill-of-goods*, rather than a part of the package along with results of full scope safety and soundness exams with reportable confirmed CAMELs 1 or 2 ratings (NOTE 48)

Considering the filers had to quarter or periodically report their Call Reports, their FR Y-9Cs, their FR Y-14s and FFIEC 101s and other similar reports, in reality they provide and had provided a great deal of data to the Fed, FDIC, the OCC, the SEC, Finra, and the CFTC. Any of these organizations had the systems and ability to model on an institutional basis as well as peer group, industry, and system wide basis, these materials and even require reporting of ISDA contracts and related items that have Balance Sheet access and encounter mark-to-market/fair value price pressures with the financial markets. The regulators all along have had the period reports for research and analysis purposes although as I'd observed earlier in this Appendix to the Comment, that as of 31 Dec 2008, the FR Y-9C and Call report data failed to separate cash impact from non cash impact in Interest income and other revenue items in the Income Statement that are generated from ISDA and similar but non ISDA items, contracts, non CME derivatives.

The results were how while the financial markets were frothy, these filers reported record breaking profits because they were able to trade these items with prices reflecting frothy markets, while Balance Sheet Items would be fair valued shadowing hot financial market prices up, but then down after 2007 when the financial markets began their serious, necessary correction. All of this sort of use of these contracts and the fair valuing of them, by de-regulation bring a lack of supervision and oversight of them while they'd been characterized as 'financial innovation' has no question been the Enron model, to legitimize and allow for the capitalization of constructive and conveyed fraud, or Bill Black's 'Control Fraud'.

Stress Tests are better than nothing at all, which other than SEC filings, and what the filers themselves reported to the public, ie 'record breaking earnings' when in the next 9 months were in substance insolvent and needed a Treasury form of Net Worth Certificates, to stabilize their Balance Sheets and petrified investors and elected public servants, while scavengers licked their chops at a future Bear Stearns or Lehman of which they'd have divested or like that pieces, or cheap debt, or some other prize from the corporate war.

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NOTES

NOTE 11 full note on their article http://www.newyorkfed.org/research/staff_reports/sr696.html Hirtle, Beverly and Andreas Lehnert. "Supervisory Stress Tests", Federal Reserve Bank of New York Staff ny.frb.org (and Federal Reserve System frb.gov) Report No. 696, Nov 2014)

NOTE 12 ___Volcker's Fed constrained the money supply in order to encouraging deindustrialization, although it was said that his tenure at the Fed was to restore stable prices by arresting double digit inflation. Off-shoring commenced when in constraining the money supply, US interest rates spiked to all time highs, US inflation spiked to all-time highs and the value of the dollar spiked to all-time highs such that US production began to move off-shore in order to sell to buyers in foreign currencies rather than the US dollar. Regulation fixed the interest rates paid by S&Ls on deposits, while at that time their Balance sheets reflected their fixed rate mortgage lending. Depositors withdrew their accounts from the S&Ls to non-regulated deposit accounts in the commercial banks, a process called 'disintermediation'. Many S&Ls in effect collapsed into insolvency however were left open with further deregulation to fan their insolvent, and often unexamined conditions.

Additionally the Income Tax Act of 1986 eliminated tax deductions for interest on the mortgages on non-owner occupied residential real estate. Many thrifts (a number at that time of which had gone public) had lent into vacation and speculative building that were not going to be able to sell those properties, nor develop land acquired for those residential real estate tracts producing large amounts of non performing assets on those thrifts' Balance Sheets. Many of these thrifts failed during Bush 1's White House admin and many were cleaned up and resolved by the FIRREA legislation and what it created in the RTC and OTS.

Although Balance Sheet items were not fair valued at that time in that era of historical cost accounting, today in the era of US GAAP based on 'fair value'/market connected valuations, we're seeing a parallel repeat itself. Although the Fed in recent times has utterly completely reversed the conditions for interest rates and available monetary liquidity, bank Balance Sheets' items are very connected to the financial markets. Whereas disintermediation of deposits from the largest commercial banks hasn't been a dominant ingredient in the fragility during the stable state in the financial crisis, other (non-deposit) market connected liabilities that will move in the direction of the financial markets in effect have produced the first thrift crisis redux with those items' devaluation/contraction producing that on those huge SIFI Balance Sheets when those portfolios of 'financial innovation', large derivative and OTC contracts portfolios have to shadow or directly reflect their 'market' values.)

NOTE **The Authors didn't discuss perhaps also the value of historical 'stress tests' that would include the 20 or so year of erosion away from writing healthy performing loans and engaging in robust investment banking underwriting and ah, well M&A, although they've continued to do that, to operating practices and strategies of 'financial innovation' – those activities, and financialization. Meanwhile there's been more regulation, although failing to effectively administer PCA, but now with more expectation to comply and compliance with foreign regulation - Basel, even now where our federal law observes complying with Basel. And Basel punishes writing more C&I loans, while failing to punish lending to weak countries or buying and holding that sovereign debt or require cease and desisting of writing and trading ad hoc non loan contracts – ISDA and non ISDA derivatives, swaps, and like these.
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Moreover, we went through a Lesser Developed Country ("LDC") crisis in the mid 1980s on the Balance Sheets of our banks lending to those economies, fostered by a few problems including Volcker era tight money and high fuel costs that trashed the economies of those former Old World colonies which we call the developing world, although we took equity and precious assets of those economies in place for their debt they couldn't service, in a *kingdom towing* strategy.

In Europe/EU it looks again like we're there although Germany is the actor attempting to dominate that 'region' while punishing those sovereigns enough that they'd agree to fiscal union with Germany – in reality domination by Germany which they'd rejected in 1991 or 92 at Maastricht.

Notwithstanding our SIFIs (ISDA banks) facilitated all of this by engaging in the derivatives, swaps and contingent contract writing to facilitate that with Bush 1 era G7-8/Club of Rome policy, such that by the mid 1990s or so when the increasing amount of swaps and derivatives activity that the banks were doing to facilitate and share among the largest European and US banks operating in Europe to help cover Germany's reunification costs - needs to be seen in the historical stress test models. To get a pass for all of this, at levels above the Fed, it was co-opted to give a pass to all of these contracts and the activity of engaging in them. The Fed thus adopts the 'financial innovation' era version of inflate/collapse which contributes to getting us where we are today. It's important to see this in historical stress tests versions. ***).

NOTE 13 1999 legitimized the trading of Credit Default Swaps said to be 'credit insurance' when they don't survive the tests for real commercial insurance)
Cc: Simon, Anat, post in wordpress, Shelby, mccain, schumer, Johnson, and chair and ranking member of HFSC
NOTE 14 2000 legitimized the trading of all other derivatives and contracts like that, none of which are actually banking contracts and only in small measure did the FDIC allow this sort of 'hedging' and 'swaps' of interest or currencies, that now are grossly, hugely written and traded)

NOTE 15 key core group members were Senator Phil Gramm (R TX and Chair of the Senate Banking Committee and one of Enron's 2 senators and friend of the deregulation Bush family), Chair of Council of Economic Advisors Larry Sommers, and Clinton Admin Treasury Secretary Robert Ruben – formerly a Vice Chairman of Goldman Sachs among the largest writers and traders of Credit Default Swaps and similar 'derivatives'. Redolent of the previous decade's 3rd World Debt 'swaps' and Money Center banks' lending to 3rd World (Latin and South America) countries, by the mid 90s, large US financial companies operating in Europe and members of ISDA had been writing updated versions of 80's era contracts, in effect – capitalized constructive and conveyed fraud - to subsidize Germany's reunification costs (article about Desiree Fixler http://www.markit.com/assets/_en/docs/markit-magazine/issue-23/38-42_markit_Life.pdf). These ISDA instruments also facilitated the eroding credit exposures that the ISDA banks would experience and were experiencing in the shifting economic conditions resulting from Germany's reunification and then subsequent EU construct of a 'free' trade zone among EU members, and in time a single currency and large transfer payments and production into weaker European countries offered EU membership. Production leaving more developed economies for weaker or smaller economies would produce a contraction in the economies left behind, and negatively impact credit quality.

Production off-shoring in weaker economies wouldn't have healthy earnings and Balance Sheets. In both cases, as well as US financial exposures to these eroding credit dynamics, these contributed to encouraging proliferated use by ISDA members of credit 'derivatives' and other instruments that switched currencies or interest caps on loans held by a bank or syndicated among a group of banks. Although US banks had engaged in these 'swap' arrangements on loans, management and regulators strictly limited the writing of these which also were not traded. With the CFMA2000 however, these instruments began to trade, not only gaining Balance Sheet access as 'traded' assets (not performing like performing loans), but also without any regulatory framework or quality control on contract, item quality, and aggregated amount. In that earlier era Latin and South American versions of this form of multilateral subsidization or sovereign subsidization which the taxpayers subsidized with some consolidation among the 'Money Centers', for it again to resurrect now in Europe shows policy makers and regulators tend to ignore what produces bad outcomes to society but good outcomes – a gravy train to an inside few.

Policy makers have tended to ignore the costs to the voter out of expedience to serve multilateral interest. The US policy shifts from Carter using Rockefeller designee Volcker which in part produced US deindustrialization, to Reagan and Bush 1, and more so with Bush 1 agreeing to Germany's demands or offering incentives such as more aggressive US deindustrialization to Germany to facilitate its reunification and consolidation in Europe in effect under German domination -costs of these policies and associated shifts have fallen on the voter. US largest ISDA members and EU ISDA members which enjoy government backstops all likewise have enjoyed US voter cushion. But through all of this and a key way that has fostered this has been de-regulation, such as the Fed supporting financial innovation thus also with little accountability has supported transferring these industry periods of reckless behavior and associated subsequent costs to the voters

NOTE 16 In effect these ad hoc contracts ie, *financial innovation*, such as the ISDA and like but non ISDA contracts obtained Balance Sheet access only as a result of 'deregulation' ie because these were legitimized to trade by the help of Senator Phil Gramm (R, TX) with the passing of the Commodity Futures Modernization Act (2000) but without ANY regulatory or supervisory framework, that those organs should be required to cease and desist from writing and in any way trading those items whether or not that legislation is repealed. These instruments recognized on the Balance Sheet are a form of **capitalized constructive and conveyed fraud and that legislation should be repealed that legitimized their trading and spurred their writing .** Their use early on in the mid 80s was to obscure weakening or weak credits on the books of the "Money Center" banks during and at the end of the Volcker era that was hammering the non G7 economies (NOTE RIE LLC), while spurring deindustrialization in the US, which continued into the 90s via multilateral agreements partly resulting from Germany's reunification, and US support of that using deindustrialization (NOTE MY B3 Comment NOTE 6, 13). Large bank/investment proliferated use of these ad hoc contracts in Europe in the mid 90s was to obscure Germany's reunification costs and Germany's take over of Europe using the EU/Euro 'free' trade strategy and all the developed economies' credits that would be weakened throughout the developed world from the deindustrialization of the developed economies into less developed economies, somewhat excluding Germany. It would enjoy some stability while destabilizing Europe in its attempts for commercial and fiscal domination, while using its own balance sheet and its banks to strategize and marshal this era's asymmetric 'war').

NOTE17 G7,G8,G20 Agreements had US adopt Basel Committee of Banking Supervision, "BCBS" or Basel)

(NOTE 18 Before Gerald Corrigan left the NY Fed, Solomon Brothers had violated market rules by amassing positions in Treasury Securities. Typically the Agency Dealers had been tightly surveiled as long as that was enforced at that Bank. Mr. Corrigan used to this incident to suspend dealer surveillance as if it had failed and going forward more light touch was done. Corrigan at first was selected by President Clinton to help the former Soviet Union establish a banking system, however then left to go to Goldman -one of the largest broker/dealers at that time still private --"Joint Report on the Government Securities Market - Department of ... www.treasury.gov/resource-center/fin-mkts/Documents/gsr92rpt.pdf Jan 22, 1992 ... Statement of the Federal Reserve Bank of New York. ..... FRBNY will eliminate its dealer surveillance program, while upgrading ...... possible to implement the new open auction technique discussed below by early 1993,.. and Fed Primed to Cut Key Interest Rate. Monday March 17, 4:44 pm ET By Jeannine Aversa, AP Economics Writer… Federal Reserve Taking Rarely-Used Steps to Steady Shaky Financial Sector.)

NOTE 19 I thought full-scope Safety and soundness examinations by on-site examiners were STANDARD SUPERVISORY PROCEDURES FOR ACCESSING CAPITAL ADEQUACY, AS WELL AS ALSO FOR CONFIRMING SAFETY AND SOUNDNESS of the operating and financial condition and performance of enterprise.

A well placed source observed that requiring Resolution Plans is administering PCA at any capital level, however where are the C&Ds with that routine of time frame for meeting the C&D demands, as well as removing management, shrinking balance sheets to more quickly facilitate capital improvements, one way by existing unsafe and unsound banking practices such as writing and now 'trading' derivatives and swaps formerly off Balance Sheet (contingent agreements) contracts.

No disrespect to the authors; again consider the operative question. As it were, I view regulators' moral hazard and that which wants to use SIFIs for systemic, cunningly devised purloining and then financial crisis, as symbiotic and mutually commensalistic. This insults and 'plunders' all stakeholders in our society (NOTE___ NOTE ___ WSJ – below - regulator concern over derivatives and recent research about starving thrift examinations during Volcker era and starving regulators at that point supervising the thrift sector as well as banks in order to facilitate inflate/collapse Citigroup is expanding as regulators try to rein in instruments that helped fuel the 2008 credit contraction email author to confirm where so that he can make this statement . Citigroup's $62 trillion of derivatives is what's known as a gross notional figure, a raw tally of all contracts without adjusting for risk-reduction efforts. The amounts don't represent money that changed hands and are used to calculate payments between parties. Banks prefer to focus on net figures, which are much smaller, in part because they can use offsetting positions to cancel each other. [Citigroup Embraces Derivatives as Deals Soar After Crisis](http://www.bloomberg.com/news/2014-09-17/citigroup-embraces-derivatives-as-deals-soar-after-crisis.html) http://www.bloomberg.com/news/2014-09-17/citigroup-embraces-derivatives-as-deals-soar-after-crisis.html **Citigroup Embraces Derivatives as Deals Soar After Crisis** By Dakin CampbellSep 17, 2014 12:00 AM ET To prevent another bailout and reduce losses, regulators have adopted a new leverage rule that allows for less netting of derivatives. The regulation, which takes effect in 2018, has pushed most of Citigroup's competitors to trim their positions and gives the bank, with a higher ratio of equity to total assets than its peers, more leeway to expand. …Regulators also are pushing for clearing-house transactions of more of the contracts, including interest-rate swaps, which help safeguard the financial system by holding funds to back the transactions.)

NOTE20 Financial Institutions Reform, Recovery, and Enforcement Act of 1989) . These 'agencies' are under the Executive Branch, and are at risk for more ad hoc, capricious, *glad –handed* Self-serving/ insider oversight. For example, beginning in the Reagan Administration, that administration included the FSLIC and thrift supervision/oversight among those also on the radar screen to 'de-regulate'. The first and second thrift crises ensured into Bush 1's administration. Given what history has shown us, de-regulation is code for taking down constraints against insider self-dealing and negligence at the least, while letting the chums around the barriers and allowing them to feed from the gravy-train/trough.

NOTE 21 Black, The Best Way to Rob a Bank is to Own One; Source: Pages 1 & 33, ***The Best Way to Rob a Bank Is to Own One***, by William K. Black http://www.4rie.com/ "Economic Crisis" also note that insiders and the connected, in the case of the NBER research "The Redistributive Effects of Financial Deregulation; Wall street vrs Main Street" Korienek, Anton. Johns Hopkins U and NBER, and Jonathan Kreamer, UMaryland, Sept 2014 – Abstract of research that examines the beneficiaries by way of redistributive effects of financial regulation or deregulation: "financial innovation, asymmetric compensation schemes concentration in the banking (financial sector) system – and (government backstops) and bail-out expectations enable or encourage greater risk taking and allocate greater surplus to Wall Street ie, 'welfare'-free rider' at the expense of Main Street.

NOTE 21 Other discussions of 'Stress Test" use for supervision, discussing Fannie Mae and Freddie Mac which had failed in effect and/or are operating nationalized, perhaps was a poor example of having used Stress Tests. What about those tests failed to capture the true state of affairs at the GSEs? What action wasn't taken against what they were doing with regard to financial innovation, which should have prohibited but those stress tests did or did not reveal. Stress Test and like that use on the S&Ls also the co-authors overlooked; use of 'computerized' analysis on that sector which had 2 bail-outs, and like the GSEs says that regulators are looking for inflate/collapse? With the history of using Stress Tests, knowing these were inferior tools without full, on site safety and soundness examinations co-authors didn't mention other supervision applied to the SIFIs other than Resolution Plans? C-CAR? (personal note Find the FDIC research on examined banks and CAMEL ratings)

Are these scenarios assuming Balance Sheet, Income Statement, Cash flow Statement and sub-schedules 'as is' projected forward? Are the OTC contracts and derivatives assumed to expire? With or without renewing? But under different economic conditions, is better than nothing but not better without also having full safety & soundness examinations.

There then shouldn't be 'threats' to the SIFIs when the regulators played into the SIFI earlier abuses, when the Regulators had turf to enforce safety and soundness and our regulatory framework including PCA rather than 'Basel' and other regulatory Potemkin villages of those sorts to get us to where we are today. These current threats to SIFIs such as 'resolution' plans so named in Dodd Frank, the expression and process date from earlier eras in the FDIC. In not complying with Cease & Desists administered by FDIC, OCC and/or the Fed because of unsafe and unsound banking practices Banks bring on 'shut down' and sold in whole, parts or dissolved, all of which is also known as resolved and the resolution process. With regard to Cease & Desists and/or MOUs or Written Agreements, the regulators issued NONE of these to the largest financials under their 'watch' that would warn any one on issues with management, while the largest US financial institutions in 4Q07 reported RECORD BREAKING PROFITS!

NOTE 22 Volcker era *tight-money* monetary policy attempted to diffuse double digit inflation, however produced severe disintermediation in the financial sector: because of regulations capping what thrifts could pay on deposits, such would leave thrifts for money market funds and commercial banks paying much higher interest rates. Meanwhile the thrifts' balance sheets were full of fixed rate mortgages.) The aggregated net deficit among the S&Ls climbed into the billions of dollars, while the Reagan administration was said to have ignored the problem or purposely allowed the thrifts' insolvency during this "deregulation" era. The Fed didn't directly 'regulate' these FSLIC S&Ls, clear for them, or lend to these as lender of last resort. If for lack of data on these S&Ls or historical limit to co-authors' analysis, dealing with their problems fell on other government organs. Actually the Fed in 1993 was made the key regulator for depository institutions and whether before then or in the legislation giving turf control to Fed and characterizing FSLIC thrifts similarly to FDIC thrifts, which it did include_____ as FRS members (NOTE__NOTE__ find the legislation from which it is inferred by 1993 that the Fed becomes the dominant financial regulator).

The S&Ls trade association in 1981/82 lobbied aggressively for what eventually was known as Garn St Germaine Act, which set deposit insurance coverage at a higher limit and enabled thrifts to pay more interest on their deposits than prior regulator had permitted. 'De-regulation' cuts in staffing and cuts to funding for examiners and thus oversight of the S&Ls enabled their managements to engage in any aggressive real estate lending and real estate development.)

NOTE 23 The FDIC used instruments such as "Net Worth Certificates" to cover for the deficit net worth that had occurred in 'clean' FDIC thrifts during the Volcker era. When the thrifts had a better positive yield curve and were able to earn profits to pay back the certificates in their capital structures, some of these thrifts went public, were merged or were acquired. FSLIC also had 'cushion' strategies, however

FIRREA legislation passed in 1988 creating the OTS replacing the FSLIC as regulator over those types of thrifts (those under FSLIC purview such as FSBs, FS&Las, FSAs, but also with the OTS, state chartered thrifts were required to change to federal charters and fell under OTS jurisdiction). Sick S&Ls were shut down, put into receivership, conservatorship, paid out, but were resolved in these forms of resolution with the better assets the gov attempted to sell for smaller discounts, but poor quality assets it would attempt to package and/or sell for whatever it could obtain in auctions.)

NOTE 24 the Greenspan Fed also was increasing interest rates, and sufficiently enough to cause a financial markets panic sell off and correction in October of 1987. Wealthy chums were given tax incentives to take over large failed S&L franchises in conservatorship. I mention this because and not related to Stress Tests, but from the mid 90s era from the time of German reunification and all what then were off balance sheet instruments, 'de-regulation that GHWBush began including using that era's version of models, that the thrift sector was blown up, many banks in Texas and the Southwest, even large thrift franchises in California were blown up. The larger franchises were 'bid' out to wealthy political friends, whose involvement in the risks and the bad assets were covered, including tax breaks, and the like, gets us to similar strategies: following a period of deregulation using permissive legislation such as Gramm Leach Bliley and Commodity Futures Modernization Act in 2000 during Clinton/Greenspan/Ruben's era, although Bush 1 policies likewise would have attempted to achieve the same end. Clinton won the election however, but agreed in his selection of people who would yield the 'deregulation' and conceit towards those who professionally represented caution and appreciation for high quality regulation and supervision.

During the Reagan era, these loans and investments as they went non performing, or in their aging status eating lender/investor cash-flow – along with 'deregulation' contributed to producing the 2nd thrift crisis into the Bush 1 Administration. Bush 1's Administration also produced the Stress Tests used for 'regulating' GSEs, Fannie Mae and Freddie Mac. A Bush 1 era Congress specified Stress Test scenarios, which the GSEs' regulator used on them.

When in 1988 GHWBush was elected president, the "FSLIC" was already bankrupt and federal legislation was passed known as FIRREA created the Office of Thrift Supervision in place of the supervisor/regulator responsibilities of the FSLIC. The Savings Association Insurance Fund was established inside the FDIC. Congress and thrifts provided deposit insurance payments into that to flush that with funds to cover the eventual closure of the insolvent thrifts. In FIRREA Congress also established the Resolution Trust Corp that would warehouse (receivership or conservatorship) what the OTS would seize and shut all insolvent or near insolvent FSLIC 'thrifts' aka S&Ls that were established and regulated under that legal 'jurisdiction'.

NOTE 25 my Basel III footnotes 11, 12a on examinations and related about reach and power to obtain any desired info about the enterprises in the system add on line linkhttp://www.federalreserve.gov/SECRS/2012/December/20121206/R-1442/R-1442_113012_110903_367981921547_1.pdf)

NOTE 26 **Learn from the Lehman Lesson**
Having said that rather than repeat what happened with Lehman, Bear Stearns and Regulator Moral Hazard, SIFIs need to consider the following: with the proliferation of the financial innovation as it were packing SIFIs' balance sheets even with a 'matched book', Lehman had been satisfying associated liquidity needs with borrowings.

Lesson 1: In order to diminish vulnerability to market corrections and associated risks to availability of 'liquidity', avoid relying on borrowings the sources of which vanish. Problems in Lehman and Bear Stearns arose differently, however lack of liquidity was the final weapon used to obtain their collapses. Actually Lehman and Bear Stearns were targeted for shut down because these were the smallest of the 5 Broker/Dealers to receive the 2004 Net Capital Rule advantage. In 2004, while Paulson was a

Goldman, he obtained from the SEC (while Bill Donaldson was chairman there) regulatory relief for their leverage amounts because they'd been writing and trading the 'financial innovation' without any restraint, regulation or supervision. Their balances were leveraged many times over the 12 which was the average for Broker/Dealer assets to capital.

Evidently after the market correction, TARP, 11 liquidity facilities, intangible capital relief and quantitative easing were necessary for SIFIs and the sector, and ISDA banks needing access to cheap, abundant liquidity. Open Bank Assistance – liquidity - from Treasury wasn't provided because of the sour loans and synthetic structured product that were fraud, the SIFI balance sheets full of financial innovation that was fair valuing using strongly correcting markets – which ate capital and needed liquidity to survive the slaughter (NOTE Fed Primed to Cut Key Interest Rate. (Monday March 17, 4:44 pm ET By Jeannine Aversa, AP Economics Writer… Federal Reserve Taking Rarely-Used Steps to Steady Shaky Financial Sector.)

Bear Stearns was sufficiently capitalized however it was of the 2 smaller mouths feeding at the pie with BNP, DB, and larger American financial players including Goldman which disliked Lehman we know and possibly Bear Stearns. Engage in making performing loans and investment banking business. That's hard in a slow economy and thus within this lesson, rather than foolishly using 'financial innovation' to obscure constructive and conveyed fraud plumed in Europe to facilitate the cost of germany's reunification and movment of production from west to east germany, and thus foolishly, idiotically moronically supporting multilateralism, deindustrialization of the US, and 'free' trade here. Financial Services sector should have trade association lobbyists remove us from the flawed multilaterism including the UN's Global 2000 Agenda operating in the US as the 'Sustainabilty' policy, that has fouled the quality and health of US commerce and our economy, as well as the health of the American people.

Lesson 2. SIFIs - Avoid bad press about yourself in as much as possible, and avoid where your counterparties can shut you down and/or do to you what they did to Bear Stearns and what that gossip did to Bear Stearns that the Regulators now are attempting to do to the SIFIS. Although in one context, the SIFIs are heavily capitalized, in the context of balance sheets full of 'financial innovation' all of which is fair valued, SIFIs' balance sheets are wasted nearly immediately in a sudden but if long lasting strong correction in the financial markets or some other crisis that slams the financial markets. Contracts tied to the upside price of crude oil are severely punished at this point without downside offsets. In the distant past before Commodity Futures Modernization Act, contracts tied to this commodity cleared Chicago Mercantile Exchange. Banks' exposures to price corrections were limited to those contracts clearing on an organized, well-regulated exchange. When the banks and investment banks could trade somewhat similar contracts and offsets they'd written when these contracts were legitimized to trade with the Commodity Futures Modernization Act, these contracts in effect required some balance sheet recognition, and thus banks' exposure to those risks. Possibly the current correction in crude oil prices may spur some longer or more aggressive financial market correction, which would trigger financial problems for 1 or several SIFIs. Revealing some bloodlust, the FDIC has been readying itself for that sort of *rainy day* affect. (NOTE__NOTE___ FDIC and SRAC meetings and unresolved issues over disparate treatment of investors if a SIFI were 'resolved', ie, shut down at the top holding company level. Some (preferred) investors would be made whole, while others including former SIFI employees in the 401(k) and that SIFI's pensioners would get punished rather than enjoy access to what is made whole. Bloomberg radio also reports that Jeb Bush has filed with the SEC to establish an offshore investment fund, which would cater to foreign investors. These would desired by the FDIC to be able participate in acquiring pieces of what would a SIFI would be forced to divest. I had mentioned this in my SPoE **Comment Letter** (letter #29) FDIC: Single Point of Entry / 77614-76624 Federal Register / Vol. 78, No. 243 / Wednesday, Dec 18, 2013 http://www.fdic.gov/regulationS/laws/federal/2013/2013-single-point-entry-c_29.html __comment finalized Regulation "S" for Single Point of Entry, p1 1st paragraph, p19, 2&3rd paragraphs, and suggest they be prohibited from participating in acquiring divestitures of SIFIs or in the IPO when the FDIC takes it out of the bridge bank)

Basel is disgraceful on this, attempting to regulate for improved liquidity while failing to call for cease and desist of what eats high quality liquidity and/or themselves ie, 'finanical innovatin' parasites liquididity. In substance the Regulators are somewhat different from each other in spite of their shared expedience, fecklessness and serving as pawns for levers of power above them that are doing pushdown of multilateralism and expecting the regulators accordingly to support and facilitate, for Lesson 3.

Lesson 3: Regulator Moral Hazard- SIFIs need to repent from bad behavior that aggravates and spurs the regulators' Marxist/vandalistic bloodlust and setting the disingenuous, mixed-message tone by obtaining "Resolutoin Plans' and attempts to establish 'regulation' for how a SIFI is shut, going under the name, "Single Point of Entry". When one reads this proposed regulation, in effect it's a capricious policy that's a Marxist-vandalistic way over time to target and to 'resolve' ie eliminate a competitor, so as to satisfy those to whom/which they 'answer' while doing it on the backs of the ordinary investors in the common stock or employees' 401(k) of the SIFI that gets trashed. Mixed message - *White-is-black/black-is-white* originates from within the same irrational, capricious capital plunder that originated Marxism. Meanwhile this kind of gentile blood lust to 'resolve' a SIFI deflects from their own guilt and failure as regulators against these problems that existence and to which they contributed.

All along the regulators needed to do their jobs rather than pretend or be co-opted into supporting constructive and conveyed fraud that enjoys 'financial innovation' status. (NOTE___NOTE___ Whereas Paulson while at Treasury but formerly from competitor Goldman Sacks had had JP Morgan to deny liquidity to Lehman, and in turn JPM had the Fed reject the collateral Lehman had been approved to offer to the Fed for repo purposes, this also could happen to any SIFI for any reason. Meanwhile writing fraud and getting a pass. Give the fraud a nice name and enable it to yield a great deal of money. As I've said, if even 1 basis point of the hundreds of Trillions of dollars of ISDA contracts runs revenue through the SIFIs' Income Statements, they don't want ANYBODY calling financial innovation, fraud, when that is exactly what it is, because that's exactly for what reason it was proliferated in Europe – to obscure sour credits and credits that would go sour and countries that would get taken over in time by Germany using the EU strategy.

Agency self dealing going by the name of swaps had existed in the US, however these exposures were limited and off Balance Sheet, although they probably plumed during the David Rockefeller –Volcker era Lesser Developed Countries "LDC" crisis. Regulators looked at – off Balance Sheet Trillion Dollars notional in swaps on Citibank's 1987 Call Report.

Be onto the moral hazard problem with the regulators having to cheer-lead for SIFI financial engineering/constructive-conveyed fraud by candy coating it with the Fianncial innovation label, while the SIFIs were being water carriers for the Germans, their Banks, the Bushes and GHWB commiting the US to deleterious agreements in the G7/8 and eventually those to Helmut Kohl rolled up into G20 Agreements. Within this lesson understand how regulators are a tool for the interests of those who wield power or have access to levers of power and also European interests such as the German banks and others that also use them for European domination.)

NOTE 27 https://apsoras1.wordpress.com/2015/01/17/bhc-report-modernization-initiative-docid-fr13no08-39-nov-13-2008-vol-73-no-220-pps-67159-67173/ 12jan09- Reference number/Docket number: DOCID fr13no08-39 Nov 13, 2008 Vol 73 No 220 pps 67159-67173 "BHC Report Modernization Initiative" proposal to separate and included data currently not specifically tracked in the following reports: FR Y-9C, FR Y-9SP, FR Y-9ES, the FDIC's Report of Condition and Income FFIEC 031 and 041, and the Office of Thrift Supervision's TFR form 1313)

NOTE 28 Failure to collect or require more extractive surgical reporting of the swaps and derivatives contract data enabled Greenspan to plead ignorance to the Financial Crisis Inquiry Commission "FCIC", to say that while it was happening he didn't know what was happening or that it –the Fed – didn't know the consequences of what was happening and what it had been permitting. Banks were writing and/or buying (from brokers) non-performing, non conforming loans – ie, defaulted loans and paper of defaulted loans, structuring securities including these and CDS to trigger upon issue, while these were products of packaged fraud with Agency self dealing benefited by having ready buyers paid out with the CDS triggered on issue because of the defaulted re-hypothecated loan paper referenced in the tranches. Although a great deal of these structures were off balance sheet, these all were constructive and conveyed fraud into which the regulators actually had full reach into this in spite of Sheila Baer has said, as well as the Fed having full reach into these activities according to their own handbooks and MOUs they have, internal policies and if necessary Justice Department subpoenas. see NOTE 25 my B3 footnotes on 11, 12a cited earlier… Moreover, although banks wrote a great deal of this product and enjoyed record breaking profits from these activities as well as the financial innovation written around and in addition to all of structured product, the regulators did little to nothing to address the serious amounts of unsafe and unsound banking practices, bogus product, inflate/collapse problems these sour assets and all the financial engineering around them would cause when fair valued using the financial markets while these would go into serious correction.).

Policy conflicts are above the Fed's 'pay-grade' although the Fed could do research or better research to describe macro and micro economics/economies before and after certain policies and multilateral frameworks selected and administered specifically to reallocate resources. (NOTE policy conflicts from here on together Economics anyway originated in the Old World where often there were wars over who would control land and resources. The Fed itself is originated in an Old World framework that the founders of the US republic had rejected, while also establishing a society without those problems the Fed disingenuously was chartered to ameliorate.

Policy conflicts such as US 'commitments' in multilateral frameworks such as that to which we'd 'committed' under G7, G8 and of late, G20, have our economic and commercial state where we are today. Conflicts are what foreign interests want and/or expect versus those of what's under the Constitution of the United States and/or what best serves the American people. This means serving all Americans, not only the very wealthy Americans and foreign wealthy who have homes and investments in the US.

Conflicted policies contrary to the well-being of domestic US commerce include more than 30 years of deindustrialization and subsequent trade 'liberalization' to spur and facilitate off-shoring production out of the US into cheap labor regions. Not coincidentally, nearly all these regions have Catholicism as their national religion. This institution of '*white is black and black is white*' has had an affect on the function of those societies (NOTE____NOTE____ the expression and discuss the wealth distribution and literacy and mortality rates in those countries. The US off-shoring our production to those regions has significantly prospered the wealthy in those 'developing world' regions while having had and having a profound deleterious affect in the US.

And meanwhile the US off-shoring production to those regions indirectly has lined the Vatican's pocket; from and including G7, the Vatican has been a direct or indirect participant in multilateral talks - EU? Or G20? Member? NOTE___ within this larger note

The very wealthy and their agents sometimes called 'policy-makers' have obscured these polices with names such as the 'new economy' 'trade liberalization', and 'globalization'. Another way to hide how those who have the power or can influence those who have power over resources are by the use of old world colonial era 'economic' characterization of the colonies of Old World countries, ie, that these have comparative or competitive 'advantage' by some 'resource' –human or otherwise that gives advantage to those regions over others with less of those resources.

These regions however are and have been darlings of the global investment banks'/sell-side portfolio managers and investment strategists because that's also where those banks have been lending and doing deals, while the US has been facilitating off-shoring into those marginal regions and sovereigns, while also fouling our own economy in part using deindustrialization with trade 'liberalization'. Financial engineering, ie with the Fed's blessing whereby it calls such 'financial innovation' likewise has facilitated all of this, while all the 'risk' – the losses - of financing production off-shored into those regions recently was part of what was bailed out by the US voters many of whom as former blue collar middle class Americans lost their jobs because of these multilateral policies including deindustrialization to those regions and China.)

NOTE 29 Moreover there is similarity of the credit bubble mortgage re-hypothecation/synthetic-financial engineered *structures* with these hundreds of trillions in derivatives and OTC contracts, Credit Default Swaps and other similar non loan contracts used to obscure the true costs of German reunification and in time deindustrialization of the US and some of the developed EU countries, as well as the poor credit quality of these exposures in developing world and lesser developed countries. The Credit bubble era of these re-hypothecations of mortgage paper (from deal to deal the tranches would reference earlier deal's mortgage paper and associated cashflows rather the old fashioned Mortgage Backed Security, or old fashioned Collateralized mortgage obligation. Abundance of structured product full of paper, referenced paper of non performing assets and credit derivatives packing SIFIs' Balance Sheets rather than balance sheets of full of performing loans, inventory from underwriting for bonds, stock, that when the economy was healthy or if not but items that were not/are not FV'd.

The Fed stopped proper, full data collection; that it didn't 'know' what was happening isn't a sufficient excuse for what over time it failed to manage and prohibit the inflate/collapse pathology they'd contributed to fostering and been co-opted to foster including characterizing as 'financial innovation' instruments that were/are constructive and conveyed fraud

(https://apsoras1.wordpress.com/2015/01/17/bhc-report-modernization-initiative-docid-fr13no08-39-nov-13-2008-vol-73-no-220-pps-67159-67173/ 12jan09- Reference number/Docket number:
DOCID fr13no08-39 Nov 13, 2008 Vol 73 No 220 pps 67159-67173
"BHC Report Modernization Initiative" proposal to separate and included data currently not specifically tracked in the following reports: FR Y-9C, FR Y-9SP, FR Y-9ES, the FDIC's Report of Condition and Income FFIEC 031 and 041, and the Office of Thrift Supervision's TFR form 1313

Where with regard to interest income, I urge for those reports to use memo or separate fields for fair value impact, fair value option, or other management discretionary effects on interest income that the Fed had failed to require the FR Y-9 group to report in separate memo fields. Again we're abused with this moral hazard where the regulators failed to require reporting of important information because in avoid this, they could say they didn't know what was coming down the pike. We're abused with moral hazard of a dysfunctional system of banks with global power and dominance, while they're controlled by off the radar screen levers of power that also control the regulators, a theater of critics, experts and economies.

If the Fed is reviewing 'Stress Tests" and Fed reports in the past had failed to separate Fair Value ie non cash impact – contamination - which if too much Fair value inflates the balance sheet and when having to recognize unrealized non cash gains game data that affect performance, what has the Fed in its tools to properly analyze the corpus when its one reports failed to separate what contaminated the balance sheet and income statement because financial innovation is 'fair valued' and rather than isolated from, is included in with the cash instruments, and real assets and liabilities. Given Balance Sheet instruments that have to be fair valued, have enjoyed liquid markets from quantitative easing, what of the Banks' reporting systems properly separate non fair value (former reporting framework of US GAAP, ie Historical cost accounting), from fair value impact.

NOTE 30 The co-authors disingenuously handled this matter of OCC examinations, as well as ignoring FDIC safety and soundness exams/examinations and what its handbook instructs its examiners. The appropriate footnote also would discuss the more than 20 years of erosion quality of safety and soundness examinations that all banking regulators performed, but now the research glosses over which banks continue to be examined, for what and by which regulator.

Moreover, the SIFIs on which 'Stress Tests' are administered, are also the same banks that were involved in private label securitized mortgage product competing with Fannie Mae and Freddie Mac and were among the guilty in producing these vehicles of constructive and conveyed fraud. Regulator failure or disinclination to hold accountable the largest financial institutions for their part in buying and packaging non performing/non conforming ie, **defaulted** mortgages and referenced mortgage paper of defaulted loans, in combination with tranches of CDS, triggered those to produce cash flow on issue to buyers, who were selected to be rewarded with these payouts from the CDS. These cash flows were the only ones out of these synthetic products; it's most likely the banks knew this paper on defaulted mortgages, and in turn referencing it, were never going to produce waterfall of cash flows. Exactly for that reason the Credit Default Swaps were including in other tranches to pay the clients and counter-party chums that were selected to buy these deals.

NOTE 31 Even though from the Treasury rather than the FDIC, the Open Assistance to AIG also went into the largest banks and indirectly into foreign banks, because of the cash flow parasitic nature of many ad hoc contracts (ie, ISDA contracts and non ISDA contracts), ie, cash flows non existent or unlike those of performing loans, and structured synthetic product that were never going to have waterfalls of cash flows that the regulators said over which they had no jurisdiction nor reach My B3 Commen **Comment Letter: Fed, FDIC, OCC, SEC** Public Due Process Comment regarding opposition to Basel III adoption, analysis, in narrative style http://www.federalreserve.gov/SECRS/2012/December/20121206/R-1442/R-1442_113012_110903_367981921547_1.pdf
See my footnotes 11 first paragraph and 12a with regard to the framework of the regulators and their powers to examine, the depths and reach they have the power to demand and exercise).)

(NOTE___NOTE___ During the mid 90s to the strong market correction which began in the summer of 2007, but even more through 2008 after the Lehman shut down, ISDA members in the US received generally kid-glove treatment with the razzle-dazzle, high wire writing and in 2000 eventual legitimization to trade these highly profitable *financial innovation* contracts of constructive and conveyed fraud, but like selling heroin into broken neighborhoods, likewise to each other and commercial enterprises into economies eroded by deindustrialization and associated 'free' trade agreements covering for their soured credits and future non performing credits. That's why CDS came about, not only the swaps on the loans, rather than re-write the loans. The regulators should be requiring the SIFIs to run off, close out, expire, rather than continue to have balance sheet items of swaps and ISDA and non ISDA ad hoc contracts that have to be fair valued and connect the banks' balance sheets to the turbulence of the financial markets, even with Fed easing after stopping most aggressive quantitative easing.

Further, the regulators should be sued, as none had publicly reported what indicated, nor addressed what contributed to the financial sector version of Enronesque financial engineering '*financial innovation*' on banks' balance sheets that also gamed their income statements, that's raised this going concern issue to need to get 'resolved' ie, shut down. All along the regulators should have been very public on these unsafe and unsound matters of the financial engineering proliferation –writing and trading it, fair valuing it, failure to require any sort of or little of externalities analysis – ie, like including in the cost/profit of writing the derivative, it was Basel that eventually began writing research to address fair value/revalue risks that US regulators and individual regulators in the EU were avoiding or 'booting' with regard to it. This would include borrowings needed to subsidize items that enjoyed '*financial* *innovation'* status, rather than avoiding writing these and being hit with the fair value/market correction costs that needed 11 liquidity facilities, intangible capital relief and quantitative easing.

NOTE 32 With FSOC characterizing the largest US IDIs as SIFIS for their breaking up, rather than the truth to the public about the suffocated economy and belief of the world's largest financials and 'authorities' that there are too many financial institutions and the Europeans want more of our pie, they'll have regulators say that some are sick and need to be shut down, ie, 'resolved'. Like Bear Stearns and Lehman Brothers.

The public may not understand regulator speak, but the public understands that the banks' stocks publicly trade, in most cases pay dividends, that their too large or otherwise bank continues to provide them with products and services, all of which generally ensures public calm while not forcing regulators' hands. Generally all along, regulators have enjoyed their hand not being 'forced', while other watch dog types such as the FASB have been likewise been stacked with people who have contributed to the systemic erosion that likewise has targeted the SIFIs.

But the 'blood-lust' at one of the regulators, perhaps is false pride, but the virtually all the public aren't able to cipher what the regulators are actually planning. Meanwhile the co-authors had mentioned that the investors' actions are of the most concern of at least the Fed, but also the FDIC appears to and has mentioned its potential disparate treatment of investors. Neither the regulators nor policy makers want investors to sell these shares while there isn't sufficient ability to really address a teetering SIFI, or one that is bullied and strong-armed into teetering like Bear Stearns, and would be finding the FDIC barring the door on a Friday after close of business to reopen on Monday under "New Bank",).

NOTE 33 NY Fed and Sov, Santander- 2005-2006
https://apsoras1.wordpress.com/2013/05/06/2feb06-amicus-brief-to-u-s-district-courtsouthern-district-ny-relational-investors-llc-sovereign-bancorp-banco-santander-s-a/#comment-107 ; and my Basel III (see note 31) and SPoE comments regarding regulator reach, regulator MOU before DFA and FSOC
Comment Letter (letter #29) FDIC: Single Point of Entry / 77614-76624 Federal Register / Vol. 78, No. 243 / Wednesday, Dec 18, 2013 http://www.fdic.gov/regulations/laws/federal/2013/2013-single-point-entry.html
The financial engineering strategy of re-hypothecations of referencing non performing, non conforming mortgage paper from previous deals resembles the financial innovation (*white is black-black is white)*/financial engineering proliferation layered in cases on cash flow producing assets, but with the hundreds of trillions in these ad hoc contracts the Fed had bless as financial innovation, in effect we're seeing the same nature of what gets us to instruments, structures and regulatory environment of inflate/collapse and or holding the everyday voter/taxpayer hostage to financial *white is black/black is white* schemes that given financial 'deregulation' - tent pegs kicked out or what would trigger the collapse gets us crisis that neither the FDIC nor Fed will stop. They're current political culture and steering is so, that inflate/collapse is set up aided and abetted by, and enlisting to have them as facilitators to the problems they were established to thwart or arrest but over the last 30 years (beginning with the Volcker/Reagan-Bush thrift crisis) increasingly have failed to.

NOTE 34 Having said that both the regulators and wallstreet have spent tons of money on propping up and protecting 'financial innovation' and its consequences, while likewise having made a great deal of money on the financial engineering and those *financial innovation* contracts, and by deindustrialization, the financialization of the US economy but in the process, rendering it more 'fragile' ie, subject to financial markets correction for any reason. Notional exposure of ISDA contracts is over $700 Trillion although 'netted', meaning these contracts offsetting each other diminishes to a much smaller number. Notwithstanding, SIFI and ISDA banks' Balance Sheets are exposed in varying measures to these contracts which themselves even when hedged under IFRS and US GAAP, have to be fair valued and are financial markets connected. And with QE off, there is more volatility in the system with institutional and wealthy peoples' money leaving the markets on the cue.)

Neither the Fed nor other 'establishment' and/or regulator and government connected economists, academics, and analysts however, have provided virtually any bona fide, probing research and analysis on the US economy and commercial environment before and after these eroded policies and widely practiced paper *turn-of-the-paper* (financialization and financial 'innovation') operating strategies. Often establishment economists, 'experts' and pundits employed or enfranchised by academia and market participants ignore, avoid and omit the impact of deindustrialization of the US into cheap labor regions. Their purview tends to view technological changes including *financial innovation*, or 'increased' regulation or 'over-reach' as reasons for confusing or complicating better quality and greater employment and commercial health, or inefficiencies that occur because of regulatory change.

NOTE 35 moral hazard of the mixed track record of the supervisors and their various roles and associated political accountability. At least for the co-authors to hedge their paper with observations by Sapra and Goldstein ___ cedes high ground to critics' contentions on how the supervisor had aided and abetted the inflate/collapse bubble. That the supervisors also observe policy are expect to contribute to policy again produces moral hazards.

The co-authors state that ratings downgrades are supervisory actions. Are they referring to ratings of Moody's, S&OP and Fitch? Why would these be considered supervisory actions? And if public rating companies downgraded a SIFI, depending on the reason, where the regulators prior to that with MOUs and like that or Written Agreements? And if referring to those downgrade as actions that gain credibility to Regulator Stress Tests, there were reasons that rating agencies reacted to conditions at the issuer. Why are the co-authors suggesting that Regulators are behind the Rating Agencies on the conditions of SIFIs? Moreover, although the Rating Agencies don't have to cheerlead for financial 'innovation', the Fed as lead regulator has failed to discipline it and undermines its own credibility by having championed fragility and SIFIs' Balance Sheets exposed to and activities 'defiled' by writing and trading capitalized frauds the Fed has praised and promoted as *financial innovation* in order to team up with European Central banks to hide the contingent contracts such as swaps written to hide souring and sour credits in which virtually all the banks are swimming and exposed.

Even early on, 'swaps' were agency self dealing to achieve other agendas than safe and sound banking by insured depository institutions, now which are the SIFIs. Dr David Rockefeller, whose grandfather was involved in establishing the Federal Reserve System, and the NY money center banks all had been lending to South and Central American former colonies of our Allies. When the late 70s oil crisis happened, and then Volcker's time at the Fed squeezed the US economy, all of those economies were nearly snuffed out. Our banks went on lending sprees which if not sour when made, then those loans over time went non-performing. Swaps including debt for equity harvested a great deal of assets in those countries but also burdened Balance Sheets of Money Centers with a great deal of 'kingdom towing', an Old World way to take over a sovereign without using hot war.

NOTE 36 The Fed would have to reverse its previous support demonstrated by former Fed Chairman who indirectly helped lobby for Gramm Leach Bliley which significantly helped facilitate TooBigtoFail, and Commodity Futures Modernization Act enabling CDS and ALL of these other off balance sheet items/contingent contracts to TRADE over the counter without any oversight or institutional framework. That also plumed the writing of these contracts, vastly increasing notional contract exposures from 2000 until 2004 to greater than $400 Trillion. The Fed provided easy money/low interest rates, and with that and these contracts the markets and global economy according inflated. SIFIS reported record breaking profits in 2007 but when in 2008 the markets continued their necessary correction, the SIFIs needed TARP, intangible capital relief, and liquidity arrangements respectively, by US Treasury, the FDIC, and the Fed. In that 'crisis' and during crises, 'Markets' disappear for these unregulated but legitimized items/contracts, and fair valuing of these contracts had them shadow financial markets aggressively correcting downward.)

NOTE 37 OPEN - was it Tarullo? that made this comment 22nov --- in last week, 2 weeks Donna? Of Soss's team at CS? On a panel at the Philadelphia Fed, Nov 2014)

NOTE 38 OPEN NOTE on NY Fed selections and revolving door between Wall Street, the Fed and Treasury) other material - Regulators for decades have gathered a great deal of data, and using computers to analyze it. On a quarterly basis, bank holding companies, banks and thrifts have/had to file their Reports of Condition, aka "Call Reports" and others related to their financial health. In the past these reports became available to the public 90 days after having been filed with the government omitting the loan aging from 30 days to 89 days. At the present time ALL of this data is available on each bank, bank holding company and consolidated financial institution. Actually a great deal more except for their Basel II reports are available on regulator websites. Peer/aggregated information has been available or government collected and used for peer comparisons for all the years that insureds have had to file their Call reports. Data collection 'advances' under Dodd Frank Act in reality are a sham, other than perhaps as I'm mentioning when regulators failed to collect necessary data because of policy conflicts at higher levels than even at the Board of Governors level, let alone at the district reserve bank level. (NOTE___ NOTE ___The NY district bank arguably is probably more powerful than the Board of Governors, and both Congress and the White House need to get a grip on that. That would mean however re-establishing the US and restoring the Constitution. Wallstreet, Exxon, the 1% and the foreign including the Vatican however would put out all stops to prevent that; also my earlier comment about the FR Y-9 data it had omitted collecting separately from rolled up 'top- line' items.)

Any instrument/contract that has to be fair valued is connected to the financial markets. There are more than $700 Trillion notional and some estimate, more than $1 Quadrillion notional in these ad hoc contracts, aka, 'financial innovation' that the Fed has blessed and virtually idolized. On the ISDA members' balance sheets, assuming the 'nets' offset properly and without blowing up or wrong way, these netted positions sum into the many billons of dollars.

Regulator data collection had failed to capture the financial engineering aka, financial innovation impact on the balance sheets and in turn that impact on the Income Statements of their wards, aka, SIFIs. Y9-C reports as of December 2008 even by use of memo items, failed to separate the 'hedging' effects such as swap associated with the loans whose interest income runs through the income statement. Without effective data capture – I suggest probably because of policy problems again at high levels of the Fed and above the Fed in the US Executive Branch and Congress, it's an invalid assumption these ad hoc contracts/financial engineering should 'live' without effective regulator data capture. It's also necessary that the regulators' data capture completely separate these items from with what they've been (if or if not) imbedded and also expose/require transparency of affect on assets to which they're connected, and also their impact on Balance Sheet 'Gap' (asset/liability mismatch and its direction according to interest rate and maturity) and associated Income Statement impact by 'financial innovation' the enterprise wrote and/or traded whereby it still has exposure.

NOTE 39. There is a Bible expression – unjust weights - distortion of what is used to determine value. Product liability ie Balance Sheet 'financial innovation' items are capitalized forms of constructive or conveyed fraud that have to be fair valued ie face comparison to unjust weights that the financial markets represent, and themselves are contracts that should not have been written nor have Balance Sheet recognition. These **Bank BALANCE SHEET items have financial markets exposure**, again the unjust weights issue connected to financial market volatility, and without high quality, periodic cash flows that performing loans and high quality investment banking underwriting provide. All of those contracts should be unwound and/or required to expire, run off. No question it is good to run-off assets and Balance Sheet items to be fair valued. This is prudent to reduce 'fragility' on that SIFIs balance sheet and thwart its potential insolvency or liquidity failure in financial markets corrections because of the 'fair value' pricing to the financial markets

NOTE 40 Bloomberg. 5Dec, 2014, Brunsden, Jim. “Basel Faults EU for Deviations from International Bank Rules”. First paragraph: “The regulator has no power to compel countries to follow its rules”, unlike our own regulators which if not through the Justice Department, the FDIC has its own prosecutory power).

(NOTE 41 Other Material related) Other Material
Prior to the GLB and CFMA era of de-regulation and financial innovation, banks and thrifts of all sizes were fully examined, as well has having to file quarterly financial reports of income and condition, which also reported their condition to the regulators and the public, with slow-pay loans redacted from public information. Discipline of MOUs and Cease & Desists were administered as part of the regulators’ role. What happened to all of this? How is it that accounting and these ad hoc contracts connect the Filers’ balance sheets to the financial markets, contrary to the wisdom realized before and during the ‘Great Depression”? At that point, prior to Glass Steagall, banks also had margin accounts and other financial market (and Fair Value) connected Balance Sheet items that connected banks’ balance sheets to the financial markets. Why would we de-regulate and alter accounting models (from historical cost/accrual basis in which revenues have to realize to cash in the reporting cycle, to fair value) contrary to what we know?

What about also requiring run-off of financial engineering as a great deal of this has to be fair valued and is financial market connected?

Meanwhile, stress tests or otherwise, although regulators and most policy makers and ‘authorities’ generally have represented SIFIs as going concerns, notwithstanding, DFA requirement for the Resolution Plan and the establishment of Orderly Liquidation Authority and that fund, regulators are thinking otherwise, but failed to repeal flawed legislation, CFMA and GLB. Repealing this would have prevented capitalized fraud items - derivatives and swaps contracts from trading, and thus constrained them from being written. Again, given that these are financial market connected instruments (in the US and abroad, EU, etc), what happened to regulator constraints on these in volumes that now have this ISDA notional amount of more than $700T and non ISDA + ISDA together greater than $1,000, Trillion in spite of their categorization as ‘financial innovation’?

And with all participants and regulators having had little regard for what had been the purpose to cover for poor multilateral policy to which the Bushes had enlisted the largest US financial institutions and the regulators, which were allies and with their ways using swaps, again capitalized fraud, that the Fed wasn’t going to deter. The Fed failed to require these contracts especially once legitimized, from being separated from real assets. When off Balance Sheet, they may have been reported in footnotes. Balance Sheet recognition however, drove ‘deregulation’ down to the regulator level, which also contributed to these contracts and agency activity with these getting Teflon, while putting the problem of their form of fraud on the voters, the financial system and financial markets, and the future.

As the co-authors mentioned EU regulators not only avoided disclosure of stress tests of their banks – which enjoy government backstop and designation as ‘national champions’, but given Germany’s influence on the ECB to tacitly cooperate with the interests to fiscally unite the EU under German domination, but jurisdictionally across boundaries now has ‘nationalizing’ or charter removal traction to absorb the weaker and/or smaller banks into the bigger ones? ~~~~

NOTE 43 also reference “House of Morgan” on their sharing up of large loans and It was for this reason that the Fed was established, so that big banks would survived if lending to customers during some turbulent time or losing on a huge credit like the Franco-Prussian war when JPMmorgan lost when the French lost and Goldman won when the Germans won. Then threw re 2 other later wars in which the very wealthiest americans backed the Germans although the US ‘won’ WWI and WWII.)

Banks cutting counter-party lines to each other is like banks also cutting lending facilities during stressful times in order to have liquidity for themselves. For the Fed to facilitate liquidity when federal law prohibited the Fed from providing liquidity for longer than 60 days (NOTE___NOTE___FDICIA? And Southeast Bancorp? southeast note – https://www.fdic.gov/bank/historical/managing/Chron/1991/ On September 19, 1991, the OCC closed Southeast Bank, N.A., Miami, Florida, with $11 billion in assets after the bank was unable to repay a loan from the Federal Reserve Bank of Atlanta. That failure was caused by a liquidity strain rather than a depletion of book capital. In addition, state regulators closed Southeast Bank of West Florida, Pensacola, Florida, which had $97.3 million in assets. Southeast Bank of West Florida was a member of the same bank holding company as Southeast Bank, N.A., and was closed because it was unable to cover its share of the FDIC's anticipated loss from the resolution of the national bank under the cross guarantee provisions. To accomplish the Southeast resolution, the FDIC arranged two P&A transactions with First Union National Bank of Florida, Jacksonville, Florida. The FDIC used a new resolution method for the first time, a loss share arrangement designed to keep bank assets in the private sector and to maximize their value. Under the loss share arrangement, First Union purchased $10 billion of the assets, including problem loans. The FDIC agreed to reimburse First Union for 85 percent of the net charge-offs from the failed banks' portfolios over the next five years, with First Union absorbing 15 percent of the loss during that time period. First Union agreed to reimburse the FDIC for its portion of recoveries received for an additional two years. The loss sharing was slightly different for credit card debt and home equity loans. The loss share percentage declined by 5 percent per year from 85 percent in the first year to 65 percent in the fifth year. (The Loss Share Transaction was designed to address problems associated with marketing large banks that typically had sizeable commercial loan and commercial real estate portfolios. Acquiring institutions had been reluctant to acquire commercial assets in FDIC transactions for three main reasons: limited due diligence periods; questionable underwriting criteria of the failed bank; and questionable commercial real estate markets in the late 1980s and early 1990s. In a Loss Share Agreement, the FDIC agreed to absorb a significant portion, typically 80 percent, of any credit losses on certain loans) link also contains infor on net worth certificate program) means all of these banks in a crisis would only be able to lend because the Fed is providing liquidity, if the Fed is assuming in models credit availability exists, when ordinarily most banks would have a difficult time providing liquidity when they need it especially with their largely illiquid derivatives/OTC contracts exposures to the financial markets which I am assuming in adverse and strongly adverse scenarios are correcting. Even with collateral banking the derivatives exposures, liquid high quality collateral becomes expensive and scarce. And these counter-parties also would be encountering their hedges having to handle their credits and other assets' affected by correcting financial markets, thus without the associated assumptions that Balance Sheets will shrink, and/or exposures to each other will be more than likely deleteriously impacted seems flimsy and absurd.

While I worked in Counter-party Credit risk at a Global foreign bank, that bank had Non disclosure Agreements with as far as I know, all counter-parties and had the power to expect disclosure of any demanded materials and transparency from counter-parties. If or for the Fed to avoid or ignore this power, or infer less than this power unless such power at the banks themselves has disappeared, then this is de-regulation that has legitimized malfeasance and/or fraud or again moral hazard (NOTE__NOTE___ other forms of bank law breaking beginning with negligence and gross negligence).

NOTE 44 from where Bill Black discusses this. He experienced this first hand while working in Reagan's first administration and colliding with that administration and Bush 1's 'de-regulation' mission. What we also saw with lobbyist power at that time with Congress "Control Fraud" interests obtaining the Garn-St Germaine Act (1982) that synergistically worked with the Reagan de-regulation of the Home Owners Lending Act "HOLA" thrifts, while also creating a gravy train for its connected cadre such as lawyers, those lobbyists, thrift operators, chums and relatives. These relatives included Neil Bush, who sat on the Board of a large Colorado thrift that was blown up. These *gravy trains* to hive away the assets from the hands of the few into the hands of the many are why 'de-regulation' is perpetrated and is used as their 'business – strategy' to line their pockets at the expense of many.) second note

(NOTE___NOTE___Indeed, let's avoid amnesia about past problems plumed when failing and having failed to administer proper discipline against unsafe and unsound banking practices, with discipline frameworks legislated in 1991 FDICIA and PCA; these were not repealed. Failing to effectively administering discipline against the SIFIs such as using MOUs and C&Ds and PCA, contributed to inflate-collapse, of which also includes the associated increasing amount of Balance Sheet exposure to fair valued items ie the Balance Sheet access of the contingent contracts including swaps, CDS, derivatives, and other OTC items, and US GAAP anyway eroding to fair value that DO get us to inflate/collapse because those Balance sheet items are financial markets connected. Meanwhile there've been no C&Ds or at least MOUs publicly for transparency purposes to maintain the appropriate regulator practices/supervision that co-authors allude that using 'Stress Tests' may change.

Past problems whatever those are said to be and were said to be the reason for Dodd Frank, are said to be the reasons we're seeing Staff Reports on the merits now of using Stress Test for supervision. These past problems ARE NOT what I've identified which ARE *black-is-white and white-is-black/*Moral Hazard -inflate/collapse reasons that are not going to be corrected with DFA.

We didn't need DFA. We needed to repeal Commodity Futures Modernization Act and CDS writing and trading legitimized by GLB and the status quo the Fed seems to be 'captured' in and maintaining, rather than restore full safety and soundness examinations by examiners and the Exam reports that also would include the Stress Tests, the CCAR and associated Capital Plan, the Resolution Plan and the other public filings as well as the SOX filings.)

NOTE45 FFIEC 101 Risk-Based Capital Reporting for Institutions Subject to the Advanced ... capital and risk-weighted assets in nineteen schedules (Schedules A through S). ... with the Advanced Capital Adequacy Framework, also known as Basel II www.ffiec.gov/PDF/FFIEC_forms/FFIEC101_200608_draft_ifr.pdf
www.newyorkfed.org/banking/reportingforms/FFIEC_101.html)

NOTE 46 Southeast note-and rule that came up that limited borrowing to 60 days from the Fed overnight window to indicate that institutions with capital have been seized and that it was facilitated by the FDIC and perhaps by the Fed)

NOTE 47
There still is meaningful discretion by way of judgment calls on the Capital Plans and Resolution Plans, the amount of Financial innovation the Fed and/or the FDIC criticize and the discussions between the Fed-BOG and FSOC regarding which SIFIs and similar 'covered companies' are targeted for the glide path that regulator rhetoric is setting up for the Bear Stearns or Lehman strategy, *a- night-of-the- long-knives.*

Both the Fed and FDIC have a significant hurdle to overcome in having allowed these enterprises and their activities which they have to disclose, such as their mergers with peers, acquisitions of peers, divestitures of important subsidiaries, their banking activities with associated interaction with the regulators or failure for regulators to oppose their large acquisitions of/mergers contributing towards their "Too Big to Fail" status, which analysts had condemned. It's presumptuous of the co-authors to think that public support comes with disclosure of 'Stress Test' results that probably omit problems and huge amounts of financial innovation, while the Fed and the FDIC's ongoing support for this capitalized fraud of which the writing, trading and use actually in any way of it is a root cause of the SIFIs' problems and the financial systems problems that if the public knew, would probably call for the reconfiguring of the regulators and harshly judge them for their regulatory erosion into more affected and inconsistent, hypocritical supervision and oversight.

Additionally with regard to discretion vs 'rules', the Fed's aligning with multilateralism and multilateral interests in part because of policy at levels above the Fed, and because of the Fed's origins, foreign interests also have a factor into the future of these CCAR/DFAST “Stress Test” Capital plan filers. Large foreign based competitors get antsy about the number of competitors in a shrinking global economy. These competitors and their influence have ear of levers of power in our Executive Branch, in our Congress and on Wall Street. Foreign and self serving domestic interests probably contributed to former Goldman Chair Paulson while Treasury Secretary to give Bear Stearns and Lehman Brothers the ‘thumbs-down’ to eliminate them from the peer group. Whereas finding this in print may be difficult, I’ve explained earlier in this comment about the sequence of events of Henry Paulson include the closing of Bear Stearns and Lehman Brothers. These sorts of discussions, decisions, and forms of policy all have roots in discretion.

NOTE 48 all the research regarding the importance of full scope exams and the CAMELs derived from what the examiners find and report. This FDIC research report was at one time on its website, which I may have a pdf of it however now on the website and among my materials this research article has been difficult to locate.