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James P. Sheesley
Assistant Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW (4th Floor)

Washington, DC 20429-9990, USA

**Via Email: comments@fdic.gov**

**Comments/Legal OES (RIN 3064-AF86)**

Ladies and Gentlemen,

Dear Mr. Sheesley,

By way of introduction, I, Manfred Eckhart Will, am the Founder & CEO of M|E|W Consul ("MEW") - **www.mewconsul.de/en** - based in Germany. Area of expertise is risk management, with special focus on systemic risk.

MEW is honored to comment on the federal bank regulatory agencies "Proposed Rule to Require Large Banks to Maintain Long-Term Debt to Improve Financial Stability and Resolution" (RIN 3064-AF86).

Every regulatory initiative is a good opportunity to also prepare the financial system for coming challenges. We know already, and Silicon Valley Bank (SVB) has demonstrated it, that digitization (namely social media) shortens time horizon, even more going forward in combination with wider adoption of instant payment and application of artificial intelligent (AI).

That is why I would like to look at the proposed regulation from a birds-view perspective, demonstrate the advantages of long-term debt (LTD) in combination with precautionary facilities.

Central banks, same as private financial institutions and system infrastructure providers, are more and more technology driven, which allows learning from the experiences of private tech sector, for example software. Sector initially experienced problems with new products due to flaws in coding on a regular basis. Private hackers were considered thread, until both sides started to collaborate. In the end firewalls and complete cyber security sector developed. Systems are still getting infiltrated, but viruses are mostly quarantined, pose no systemic risk.

MEW believes the same applies for the financial sector, where collaboration of authorities with private sector will lead to independent risk management sector. Regulation provides uniform protection to all. Precautionary facilities allow every market participant to add additional protection according to individual business model and risk preference. Banks and others financial institutions will still get in trouble, but fallout will be limited, pose no systemic risk.

On March 3, 2023 The Chicago Booth Initiative on Global Markets Workshop on Market Dysfunction was held. Federal Reserve Governor Michelle Bowman and Bank of England Executive Director Andrew Hauser were outlining necessity and core features of central bank precautionary facilities (CPF), based on experiences during "dash-for-cash" crisis in 2020 and LDI/gilts upheaval in 2022.

CPF can be combined with private precautionary facilities (PPF). And PPF can be structured as:

1. Liquidity backstop, but also

2. Regulatory capital reserve (RCR).

Basically, PPF is a financial contract between one Insured Corporation and one or several private capital providers (i.e. corporate credit investors such as public credit funds or pension funds, etc., same as LTB investors).

Regarding current consultation, PPF contracts would guarantee insured banks - large and small, listed and private - access to LTD, in real time.

PPF is a smart, highly flexible, decentralized solution. Technically, PPF contract is physically settled swaption, allowing insurant to swap corporate debt at any time for high quality liquid assets (HQLA) as per BIS or central bank definition. Swap terms & conditions are fixed at inception, but on a relative basis, not absolute pricing as is market standard! CCP clearing, 100% collateralized, physical settlement. It's the small print that matters.

The pricing level will be dependent on credit standing of insurant, while regular premium of individual transaction will correlate with size, maturity, currency, etc. All we know today, regular PPF cost will be a fraction of cost of capital only.

Regulatory agencies can decide how to use cost efficiency:

1. Keep cost level for insured bank unchanged, and maximise safety standard,

2. Keep safety standard for individual bank unchanged , and minimise cost, or

3. Split the cost advantage.

Recent complains from major Wall Street banks regarding negative economic impact of tighter regulatory standards are definitely not warranted. CEO arguments look outdated, ignoring innovation deliberately to protect status quo.

Looking at last years SVB situation as reference and the advantages are obvious:

1. Financial and non-financial business can get PPF cover, giving corporate depositors safe and cost-efficient alternative to non-operational liquidity reserve; corporate deposits would have been smaller from beginning,

2. SVB would have access to HQLA in real time and at market value to replenish dwindling liquidity reserve,

3. Failed attempt to raise additional capital avoided, RCR PPF structure guarantees real time access to regulatory capital (AT1), and

4. Most important during stress situation is psychology; the fact that banks can demonstrate to the market that it can raise additional reserve even in challenging environment often more important than details such as size, procedure, etc.

PPF is a simple solution, which are the most difficult to develop. Plus, simplicity allows standardization, precondition for commoditization, and hence cost-efficiency. MEW recons regular PPF premium will only be fraction compared to cost of capital, as already mentioned.

Additionally, liquidity PPF is attractive for financial but also non-financial businesses. That is important for capital providers/underwriters, since it allows managing credit risk via diversified investment portfolio. This is in contrast to specialized banking solutions, which are always highly correlated as we experienced last year again.

Every individual PPF should be treated alike insurance companies from a regulatory perspective. As a result, watertight regulation is highly recommended: structure, documentation, supporting assets, distribution, settlement, reporting, etc.

Combination of standardization plus regulation allows seamless PPF integration into existing safety architecture. Therefore, real time exercise of the swaption in case of stress on financial system level, on financial market level, on financial sector level or on individual insurant level no problem.

MEW already had initial discussion with FedNow regarding real time liquidity backstop, is looking forward to more detailed exchange as part of dedicated working group, aiming for full PPF regulation/certification. It is important to once more emphasize the flexibility of PPF - liquidity and capital, financial and non-financial – essential in a digital and AI driven environment going forward. SVB confirmed, current set-up hardly capable of handling the much higher speed of tech savvy market participants.

Summarized, Proposed Rule to Require Large Banks to Maintain Long-Term Debt to Improve Financial Stability and Resolution in combination with PPF will be of advantage to authorities and banking sector during all phases: stable environment, stressed situation and following bank failure.

Precautionary facilities will reduce the number of failed banks – G-Sib, large and small - and reduce required FDIC and therefore taxpayer support.

For MEW the introduction of precautionary facilities – central bank and private – goes beyond the solution for a single regulatory problem, instead is necessary preparation for digital and AI driven future.

Recent IMF report is highlighting "Financial Stability Needs Supervisors with the Ability and Will to act". PPF set-up will significantly reduce complexity of supervision, improve transparency of private sector risk management, plus make it easier for regulatory agencies to intervene.

Well-structured PPF are flexible regarding technological and regulatory changes, complementary to any regulatory and stabilization measures, including proposed LTB rule, and easy to integrate into existing safety architecture.

Whatever the exact regulation of large banks will look like and how features of LTB will be determined by federal bank regulatory agencies, the result in combination with precautionary facilities will be superior in any conceivable scenario.

Best regards,

Manfred E. Will
Founder & CEO