To: Comments
Subject: Single Point of Entry Strategy
Date: Friday, December 13, 2013 5:24:06 PM

Single Point of Entry Strategy

Comments by Gillian Garcia

I submit these brief comments because I believe that the resolution strategy for SIFIs is of critical importance to the health of the US financial system and the economy. I have 6 comments

1. My first and most important thought is that SPOE could dramatically change the structure of the US financial system. Faced with the proposed strategy, financial institutions will seek to change their structure to continue to maximize their access to federal support. The only thing that will prevent them from doing so is the brief comment in the paper (on p. 36) that it will be essential that holding companies maintain sufficient equity capital and unsecured debt to bail in to support their critical subsidiaries. That is a very weak reed on which to build a critically important strategy.

I submit that this proposal does not show evidence that its authors have tried to anticipate how affected institutions will react to SPOE resolution. Will the holding company model continue to be so prevalent in the US? What might replace it? Would the FDIC be able to resolve failing SIFIs if the holding company model were replaced by something else—such as, a more European Universal Bank structure.

2. Cross border resolutions present a major problem (p. 40-41) and all SIFIs are international. SPOE will not work for SIFIs headquartered in another country despite the 2012 joint FDIC-Bank of England paper on resolutions. The FDIC has also been negotiating with several other countries. But it stretches credulity to think that a foreign parliament will permit a foreign bank to use its capital and bail in its unsecured debt to support its subsidiaries abroad. So I would be surprised if SPOE worked for branches and subsidiaries of foreign banks operating in the US. If the FDIC believes otherwise it needs to explain why. And I cannot imagine that the US Congress would be happy if the FDIC sacrificed the capital and unsecured debt of a US holding company to support a failing branch or subsidiary operating abroad. Cross border banks are a major impediment to SPOE and the proposal does not adequately deal with it.

3. Will the FDIC be able to act quickly enough to resolve a failing SIFI when so many people and agencies are involved in the decision to place a failing firm into resolution (p. 10-11)?

4. The FDIC hopes to rely heavily on private financing for the bridge institution (p. 14-16). However placing a SIFI into resolution is likely to create a crisis of confidence, especially when used for the first time. Moreover, SIFI weakness is unlikely to be unique; markets will

fear that more than one SIFI is at risk. Then market confidence might panic—as when Lehman Brothers failed. Firms would hoard their liquidity and be unwilling to expose it by lending in to a bridge institution. Even with an FDIC guarantee the interest rate charged might be high, especially if the FDIC were perceived itself to be under pressure. Could the 10% cap Dodd-Frank cap on OLA support rove to be a barrier to successful bridge financing?

5. How will the administrative claims process (p.16) take? Could delay impede market recovery?

6. The FDIC should judge the adequacy of New Co.'s capital in relation to its total on-balance and off-balance sheet assets. Risk based measures measures of capital are too subject to manipulation (p.37).