February 14, 2014
Via Electronic Filing

Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Re: The Resolution of Systemically Important Financial Institutions: Single Point of Entry Strategy

Dear Mr. Feldman:

The Credit Roundtable[1] appreciates the opportunity to respond to the Federal Deposit Insurance Corporation (FDIC) policy statement and request for comment regarding Single Point of Entry (SPOE). We are suppliers of bank funding and capital in various currencies and tenors. Our members are also counterparties to the largest banks in many different types of transactions across a wide range of financial products.

During a period of idiosyncratic or systemic risk, policy ambiguity will increase risk aversion and reduce the franchise value of a financial institution. Creditors throughout the capital stack need legal certainty and a good understanding of the potential resolution path to persist during a crisis or renew risk commitments post SPOE resolution. Much like depositors and other short-term creditors, long-term creditors will flee a troubled institution or system by selling cash investments or buying insurance in the derivative markets. It is important to note that long-term creditors are very important to the franchise value of a financial company and that short-term and long-term debt markets are highly correlated and linked to confidence.

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[1] Formed in 2007, The Credit Roundtable, organized in association with the Fixed Income Forum, is a group of large institutional fixed income managers including investment advisors, insurance companies, pension funds, and mutual fund firms, responsible for investing more than $3.8 trillion of assets. The Credit Roundtable seeks to enhance investment grade bondholder protection and was formed in response to events such as leveraged buyouts, leveraged recapitalizations and other corporate actions that adversely affected the credit quality and valuations of a significant number of existing investment grade bond issues. Its mission includes education, outreach, and advocacy, and it seeks to benefit all bond market participants through increased transparency and improved market efficiency and liquidity.

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Disparate Treatment

The FDIC's notice states that in general it will treat creditors within the same class and priority in a similar manner. However, the Dodd-Frank Act (DFA) accords it "a limited ability to treat similarly situated creditors differently." The purpose of this flexibility is to maximize the return to those creditors left in the receivership and to continue operations essential to the bridge company. If pari-passu creditors are treated differently under SPOE, they must recover at least as much as they would have under Chapter 7 of the Bankruptcy Code. In the footnotes to the policy statement, it is clear that no senior debt greater than one year, subordinated debt or equity would benefit from preferential treatment. Following SPOE resolution, how will the FDIC establish the alternative outcome value under Chapter 7 for those creditors that faced unequal treatment? Also, as long-term debt will not enjoy preferential treatment, it is important to clarify if long-term is defined as time to maturity or original maturity.

We strongly believe that resolution should respect existing priorities, the ability to discriminate should be clearly detailed, and the FDIC should explicitly renounce any other exercise of that power. As our member firms provide capital to both U.S. and foreign companies, it is very important to have a detailed understanding ex-ante how domestic and international risk exposures will fare in a SPOE resolution. For example, how will derivative exposures of non-USA intermediate holding companies be treated relative to derivatives risk of the USA holding company or bank? In principle, non-USA intermediate financial holding companies should be treated the same as the principal USA domiciled holding company.

Credit Market Information

Transparency pre-crisis, during the resolution period and after is of paramount concern for the credit markets. We believe improved disclosure prior to a crisis will provide the market with a better understanding of risks and the potential resolution roadmap. Additional Living Will disclosures would improve the market's ability to gauge the level of risk under a SPOE scenario by providing potential methodology and mechanics. Current disclosures are limited at best and impede the regulatory goal of making sure markets appropriately price risk.

Transparency enables the credit markets to assess the risk associated with extending credit. In the absence of information, markets are more inclined to misprice risk and are prone to volatility. From an investment perspective, the information requirement increases proportionally with the risk. During a period of market instability, enhanced disclosures and ongoing communication with management and regulators will preserve the enterprise value of the firm and serve as a catalyst for stabilizing funding markets and facilitating ongoing funding needs of the SPOE or Multiple Point of Entry (MPOE) resolution. We recommend that the FDIC publish a detailed list of what information will be made available, and how soon, to support private sector funding.

As a future market crisis unfolds, clear delineation of resolution process, triggers and definitions would reduce the expected volatility associated with a SPOE resolution. Allowance for

flexibility is at odds with transparency and the ability of markets to measure the risk of individual companies within the financial sector. The FDIC needs to clearly define and explain the triggers for Title II, the parameters and criteria of a firm "in danger of default" and the factors that will determine whether or a SPOE or MPOE will be effective. Much in the same way, the FDIC has indicated that SPOE is appropriate for circumstances when subsidiaries are solvent. How and when will subsidiary solvency be determined to support choice of SPOE vs MPOE?

The FDIC's preliminary assessment of the fair value of assets will be a vitally important component in a private investor's risk assessment and decision to invest debt capital post resolution. Rather than just reporting one or two numbers from the conclusions of this assessment, or simply a range of estimates, the FDIC should publish the details of this exercise. Whatever is published should provide sufficient detail to allow investors to make their own assessments of what the bank's assets are worth. One of the essential tasks in the investment decision making process is accurately judging the value of a company's assets. Retarding the ability of investors to perform this task will make it harder to restore investor confidence in the institution and the market.

For a resolution to be successful, it will be important for market participants to understand the methodology used by the FDIC to value the assets in the transfer to the bridge NewCo, particularly as it relates to the securities for claims exchange. How are the security exchange ratios and option values established, and what will be the incremental value conveyed to capital providers up through the capital stack? As noted in the release, concentration limits could pose significant issues for bondholders if limited to 4.9% of equity in NewCo. How would credit investors know if their pre-SPOE position exceeds the post-exchange equity limit?

During the SPOE or MPOE process, monthly reporting should be mandated much in the same way as reporting requirements under Chapter 11 of the US Bankruptcy code. Given the limited role of creditor representation as the new stockholders, at least quarterly audited GAAP financials in additional to FR Y-9 report as well as conference calls with new management and regulators would be very important to re-establish trust and funding. Additionally, all reports to Congress should be fully public and available to investors. There should be no distinction between reports available to Congress and those to investors.

What rights of representation would creditors have in the SPOE resolution? Under the US bankruptcy code, a creditors' committee is formed to represent the combined interests of different classes of creditors in an attempt to maximize recovery. As the presumptive owners of equity in the reorganized firm, the FDIC should clarify creditors' rights during the estimated six-

to nine-month period between invoking Title II and when NewCo equity and debt is distributed. For example, the SPOE resolution may result in one or more smaller companies. How will equity in the newly formed companies be apportioned to the bailed-in creditors?

The subsidiarization versus a branch structure discussed in the Statement is related to the question above. While having more transparency to the risk and reward of a subsidiary investment prior to SPOE resolution, we are concerned with potential significant increases to credit risk and liquidity post exchange. And finally, what will be the priority of new unsecured debt of the Bridge Company relative to legacy debt of the resolved holding company transferred to the NewCo?

Given the circumstances under which a financial institution would need to be recapitalized via an SPOE receivership, the FDIC will likely need to access the Orderly Liquidation Fund ("OLF") in order to provide a bridge entity with liquidity. Since the amount of liquidity available from the OLF would be limited to 10% of consolidated assets or, under certain conditions, 90% of unencumbered assets, several issues need to be clarified. If the FDIC chose to offer a guarantee for private-sector funding in lieu of drawing funds directly from the OLF, what limits would be imposed on the FDIC's ability to offer these guarantees? The FDIC should clarify the direct and indirect funding limits of the OLF. How will "fair value" be determined rapidly and accurately enough to assure immediate access to the greater (90%) amount of OLF funds? Section 210(n)(1) of the Act indicates that the use of the OLF is available for the orderly liquidation of covered financial companies, a term which explicitly excludes insured depository institutions 201(a)(11). Yet it would seem reasonable to expect such subsidiaries to face significant liquidity stress in the event of a Title II resolution. How will the liquidity needs of these subsidiaries be addressed given the limitations imposed on the use of the OLF by the Dodd-Frank Act?

Another concern that would benefit from increased transparency is that, as a Title II receiver, the FDIC will be challenged with the competing goals of maximizing the value of the consolidated enterprise and the insured depository institution subsidiary, while minimizing losses to the deposit fund reducing the systemic importance of the firm. How will these conflicting goals be managed in a transparent and fair manner?

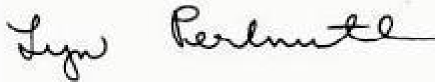
Debt Shield

Regarding the request for comment related to the amount of unsecured debt that would be needed to effectuate a SPOE resolution and establish a NewCo (or NewCos), we believe the most transparent and stable measure of bail-in capacity is equity and unsecured long-term debt to assets. As the market loses confidence in historical asset risk models during a crisis, it moves

from risk-factored asset weights to total assets. Alternatively, at a minimum, we would like to see a supplemental minimum debt ratio that could counterbalance any risk-weighted asset measure, much in the same way that the supplemental leverage ratio counterbalances Tier 1 Equity under the Basel 3 capital framework.

The appropriate composition of debt should be dynamic, not only reflecting the idiosyncratic risk of the institution, but also the prevailing market risk in the system. In order to better understand potential minimum debt requirement needs, it would be helpful to understand the institution-specific scenarios or factors that were utilized to establish minimum debt levels. Additionally, if incremental debt is required to facilitate SPOE, we believe regulators should specify how the proceeds would be deployed and where funding should occur.

We hope that, through clarification of the question and discussion topics noted above, we will have the ability to work with the regulators during a period of financial system stress. We welcome the opportunity to meet with the staff to discuss our questions and concerns in more detail. We are more than happy to answer any questions regarding this letter.
Sincerely,



Lyn Perlmuth
Director, Fixed Income Forum
On Behalf of the Credit Roundtable