PRESS RELEASE

Federal Deposit Insurance Corporation

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FOR IMMEDIATE RELEASE

To help it evaluate its risk exposure better, the FDIC will soon engage financial firms to explore ways it might enter into risk-sharing contracts with market participants, FDIC Chairman Donna Tanoue announced today.

In a speech before the Exchequer Club in Washington, Chairman Tanoue said that, as part of its ongoing review of deposit insurance reform, her agency will work with the reinsurance markets and large commercial and investment banks to consider how it could design instruments to transfer and thereby better price its risk.

She noted that: "The Federal Deposit Insurance Corporation Improvement Act authorized the FDIC to transfer up to 10 percent of its risk exposure to market participants. Total insured deposits currently are about $3 trillion, so the FDIC could conceivably transfer the exposure on $300 billion of insured deposits. Of course, if we proceed, we would start on a smaller scale with pilot projects to test different risk-sharing arrangements."

There are many ways by which the FDIC could use market mechanisms to help it evaluate its exposure to bank failures.

"Perhaps the most straightforward example would be a contract in which the company to which we shift the risk agrees to pay some percentage of the FDIC's loss if a particular institution were to fail within a specified period," Chairman Tanoue said. "In return, the company would receive either an upfront payment or periodic payments from the FDIC."

A copy of the speech is attached.
Attatchment: Speech before Exchequer Club: Risk-Sharing Contracts