Statement of
FDIC Vice Chairman
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on the
Single Point of Entry Strategy
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I support releasing a draft of the proposed strategy regarding Single Point of Entry, which outlines a last-resort approach for resolving the largest financial firms should they fail and should such failure threaten the stability of the financial system and economy. Congress indicated that bankruptcy is the preferred means for resolving failures among SIFIs, as provided for under Title I of the Dodd-Frank Act, and the FDIC and Federal Reserve currently are reviewing resolution plans under this provision. However, Congress recognized the possibility that failures of these largest firms could be so significant that bankruptcy might not be a viable option and, therefore, with the concurrence of a super-majority of FDIC and Federal Reserve board members, agreement from the Secretary of the Treasury and approval of the President of the United States, the FDIC would have the responsibility for resolving failed SIFIs under Title II of the Dodd-Frank Act.

The statement to be released today outlines one strategy for resolving these firms, called the Single Point of Entry (SPOE). However, in outlining this strategy, the FDIC also recognizes that there are many challenges to its implementation and is appropriately seeking public comment on its viability.

As a FDIC board member, I am particularly interested in the public's view regarding three key assumptions and related implementation issues that might affect the SPOE strategy.

First, SPOE assumes that a bridge financial company would be created by transferring sufficient assets from the receivership to ensure that a new company resulting from FDIC intervention is well capitalized. This assumes in turn that the company holds sufficient equity and debt to absorb all losses and has enough remaining assets to assure that a new company is well capitalized after conversion. Although assumed to be sufficient, the amount of equity and debt necessary to assure the bridge company will be well capitalized has yet to be defined and leaves a critical component to the strategy unaddressed. If there is not sufficient equity and debt, then it is most likely that the government will be required to add necessary capital to avoid the systemic effects that would result from failure.

Defining the appropriate levels of equity and debt are essential to assuring the viability of this assumption and, therefore, should be a focus of attention among those commenting on the strategy.

Second, the SPOE strategy assumes that the operating companies remain open through the crisis. The strategy also notes that if losses cannot be fully absorbed by the holding company's shareholders and creditors, then the strategy assumes that creditors of subsidiaries, potentially including uninsured depositors, would be subject to loss. However, given the practice in the U.S. and elsewhere, and since Title II can be implemented only if the SIFI's failure would have systemic consequences, it is likely that the government would step in to assure an operating subsidiary does not fail. Title II of the Dodd-Frank Act also provides operating subsidiaries access to liquidity funding from the Treasury should it be required. This represents significant public support for these institutions and leads to the next related issue.

In times of financial stress, the knowledge that operating units will be provided funding to meet liquidity demands could serve to encourage corporate treasurers and others to place their funds with SIFIs' operating subsidiaries over other financial firms for whom such assurances are unavailable. Therefore, this assumption and access to funding provides SIFIs a significant competitive advantage.

It is important that the FDIC receive views on whether SPOE strategy adequately addresses this funding advantage and if not, how it might be more fully addressed.

Third, and finally, the SPOE strategy assumes that the parent of an operating subsidiary is well capitalized and that a SIFI or a SIFI's operations in foreign jurisdictions would remain open and operating should a crisis occur. Moreover, the FDIC is working with foreign authorities to assure adequate cooperation and confidence in their respective resolution programs to assure that adverse reactions such as "ring fencing" of funds in overseas offices does not occur.

Cross-border cooperation has increased significantly since the onset of the crisis; however, it has not been tested under crisis. Moreover, there is a strong inclination among governments to ring fence funds to the local jurisdiction since it is to their citizens' financial security that sovereigns owe their first allegiance and is a natural reaction when managing through a financial crisis.

The proposed strategy asks for comment on the advantages and disadvantages of branching and single point of entry compared with subsidiarization and multipoint of entry for assuring confidence in the international financial structure and capital flows through both normal market activities and crisis. Comments on this issue would be most helpful in understanding and addressing the challenges of resolving SIFIs under crisis.

Resolving cross-border issues also assumes that contracts can be restructured to provide for a short-term suspension of early termination rights and other remedies with respect to derivatives transactions following the commencement of insolvency or resolution proceedings. It is important to better understand how severe an impediment failure to achieve these changes would be in its international resolution efforts should the FDIC be required to intervene.

In conclusion, the FDIC must address a series of obstacles as it develops a resolution plan should a SIFI fail and not be resolvable under bankruptcy. The proposed strategy serves to outline how such a plan may take form and the issues that are yet to be resolved. I look forward to receiving public comments on the strategy and the issues it outlines for consideration.

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