The Four Questions of Too Big to Fail

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Caveat

• My views

• Not view of others

• Apologies for Passover reference
The Four Questions/Answers

1. Why is TBTF so hard to solve?
   – CREDIBILITY

2. Do DFA-type reforms end TBTF?
   – NO, TLAC IS NOT CREDIBLE
The Four Questions/Answers

3. What is a credible way to address TBTF?
   – MUCH HIGHER EQUITY FUNDING
Steps 1, 2, and 4 of the Minneapolis Plan Applied to Banks

![Diagram showing asset size ($ billions) vs. Treasury Certification]

- Minimum Equity = 23.5%
- Current Regulations
- Simplified Community Bank Capital Regime
- Minimum Equity = 38%

Source: Federal Reserve Bank of Minneapolis
Step 3 of the Minneapolis Plan

**Applied to Shadow Banks**

![Graph showing tax rates for different asset sizes and Treasury certifications.]

- **Tax rate = 1.2% of borrowings**
- **Tax rate = 2.2% of borrowings**
- **No tax**

Source: Federal Reserve Bank of Minneapolis
The Four Questions/Answers

4. Are we heading in the right direction to end TBTF?
   – NO

   “…the proposals go beyond the requirements of S. 2155 and weaken important regulatory requirements for banking institutions with total assets above $250 billion – at a time when large banks have comfortably achieved the post-crisis requirements and are providing ample credit to the economy and enjoying robust profitability.”
The Four Questions/Answers

“I see no change in the financial environment that would require us to weaken protections that are vital to a safe and sound financial system and ensure large banks – and not taxpayers – are on the hook.”