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

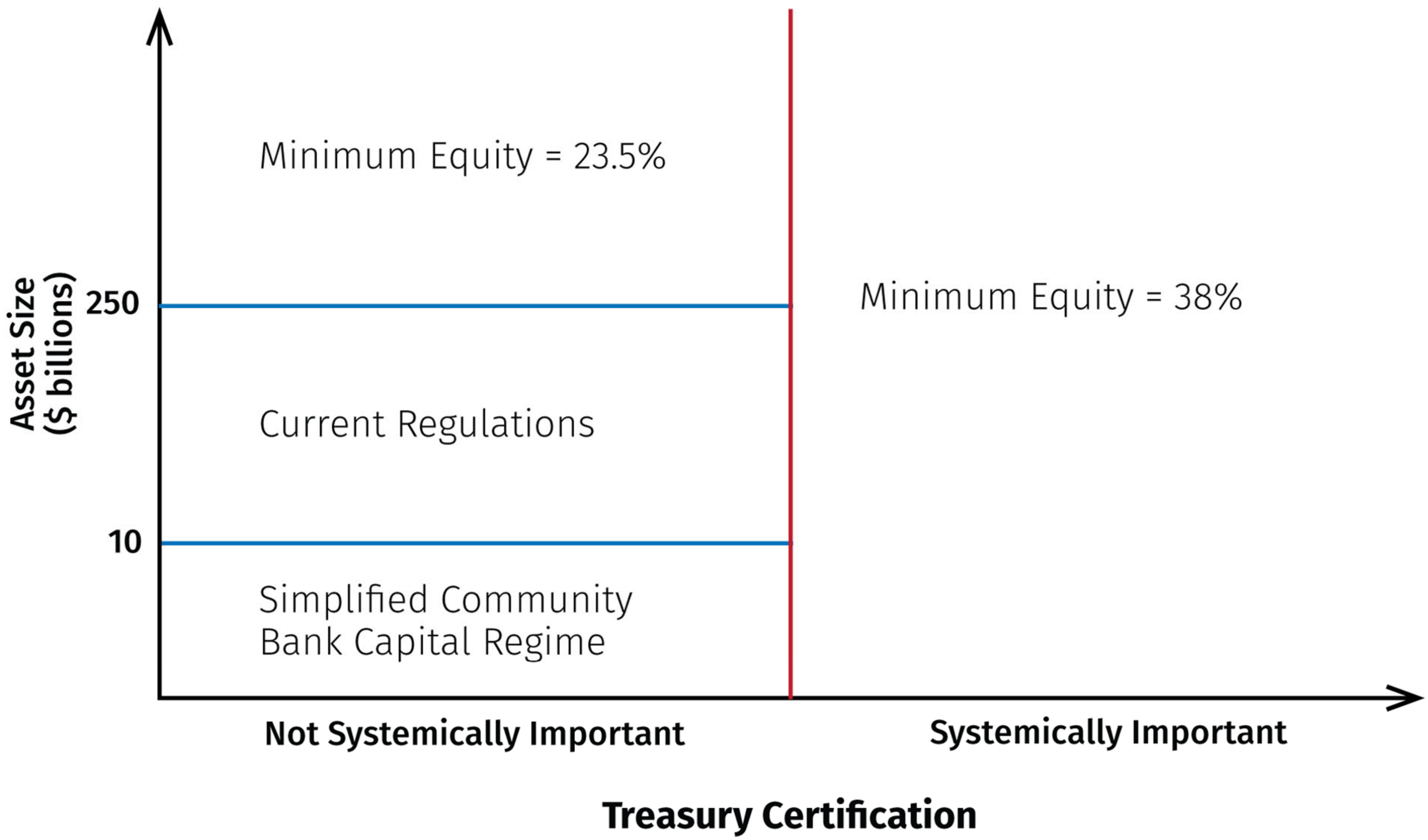
The Four Questions/Answers

3. What is a credible way to address TBTF?
   - MUCH HIGHER EQUITY FUNDING

FIGURE 1

Steps 1, 2, and 4 of the Minneapolis Plan

Applied to Banks

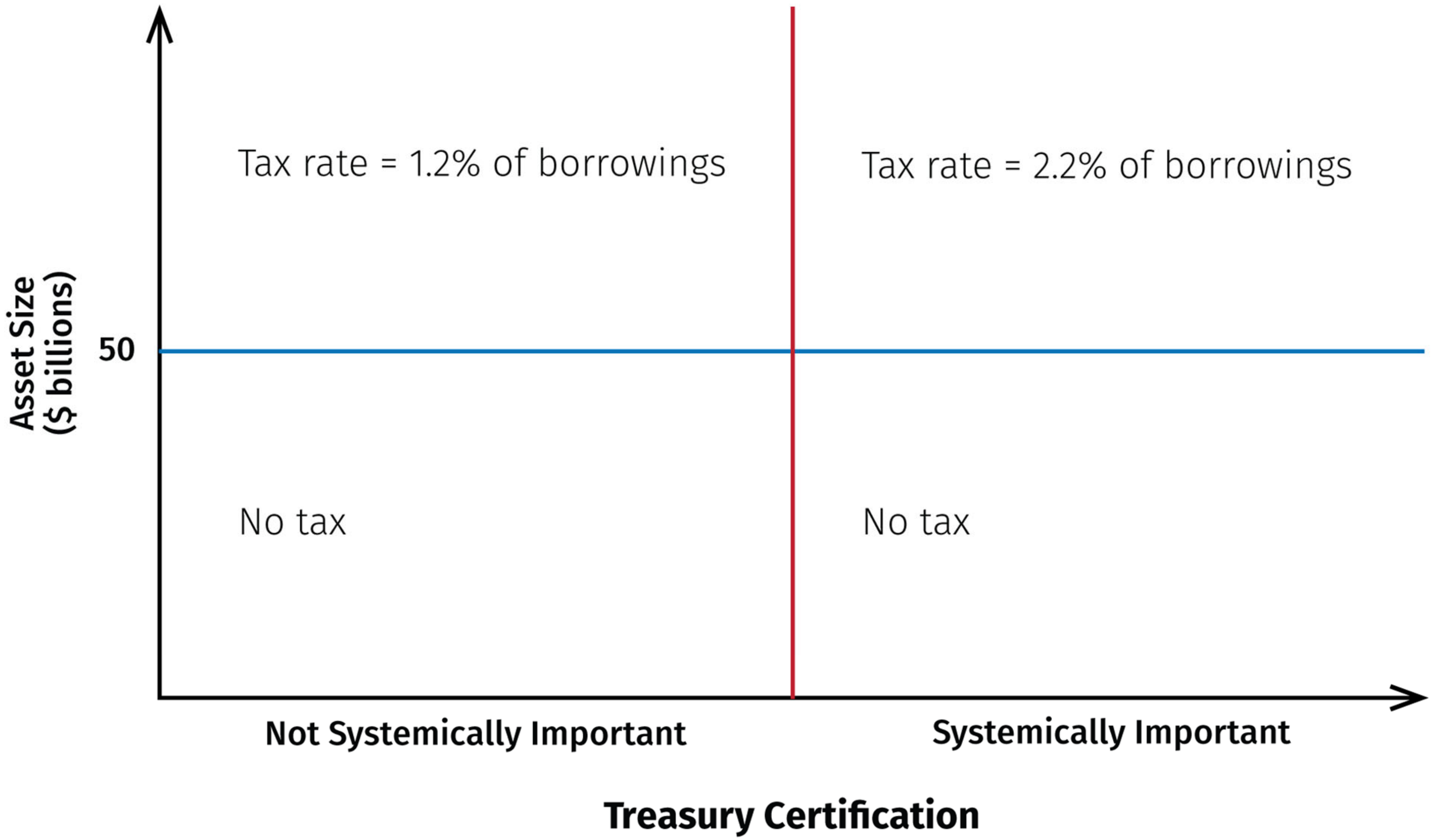


Source: Federal Reserve Bank of Minneapolis

FIGURE 2

Step 3 of the Minneapolis Plan

Applied to Shadow Banks



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."

– Governor Brainard, Statement on Proposals to Modify Enhanced Prudential Standards for Foreign Banks and to Modify Resolution Plan Requirements for Domestic and Foreign Banks, April 8, 2019.