# Safeguards to Limit the Risk of Loss to a Deposit Insurance System

IADI High Level Seminar on Bail-in and Deposit Insurance System Interaction

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# FDIC Safeguards designed to minimize *risk* of loss

- Entrance requirements and ability to determine participation
- Reporting requirements, ongoing monitoring, and supervision
- Information sharing with other supervisors
- Various enforcement actions to control risks
- Capital standards allowing for intervention before insurance is paid out
- Explicit statutory mandate on how much is covered and what triggers FDIC's guarantee

# FDIC safeguards designed to minimize *amount* of loss

- Flexible funding arrangements enabling quick action to close banks
- Variety of resolution tools:  payout, purchase and assumption, bridge bank
- Least Cost Test requirement
- Depositor Preference
- Various asset disposition tools:  Loss sharing, limited liability companies

# Questions surrounding equity conversion

- If bail-in strategies are to avoid public ownership of banks, how does bailing in the deposit insurer accomplish this goal?
- Is bail-in appropriate for all resolutions or just for SIFIs?
- If there is agreement that other banks should not hold GLAC, how is it acceptable for a deposit insurer to be bailed in?
- Can deposit insurance funds be counted as GLAC? If so, how would it be allocated among insured banks?
- How does the deposit insurer analyze proposals and challenge them, if necessary, to determine if they would result in a lower cost than paying out insurance in a liquidation scenario?
- How does a deposit insurer manage an equity ownership and then exit?

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