Published on *The National Law Review* https://natlawreview.com

FDIC Chair Speaks on Risks of Nonbank Financial Institutions Resolution of Large Regional Banks

Article By:

Daniel Meade

On Wednesday, Federal Deposit Insurance Corporation ("FDIC") Chair Martin Gruenberg gave remarks to the Exchequer Club of Washington on the financial stability risks of nonbank financial institutions.

Chair Gruenberg stated that nonbank financial institutions are critical financial intermediaries in the U.S. and global financial system, noting that in 2021, U.S. nonbank financial assets are estimated at approximately $20.5 trillion, compared to $23.7 trillion in assets held by U.S. insured depository institutions. Given this near parity with the banking system in terms of assets, Chair Gruenberg noted the ability of nonbank financial institutions can easily transmit risk into other parts of the financial system. He noted, however, that nonbank financial institutions often are not subject to the same prudential safety and soundness requirements that banks are subject to, and that poses risk that we should address.

Chair Gruenberg proffered that the Financial Stability Oversight Council ("FSOC") could be useful in addressing these risks, not only in its ability to designate systemically important nonbanks to be regulated by the Federal Reserve, but also through its ability to direct the Office of Financial Research to collect information from nonbanks to lend more transparency to their impact.

Chair Gruenberg went on to note that "[i]t is worth keeping in mind that nonbank financial institutions are not banks" and that "one of the impediments to the FSOC's nonbank designation process has been the perception of its binary nature." He called for development of "a more tailored process that reduces undue financial system risk while applying prudential regulation and resolution planning requirements that are fit-for-purpose in the context of a particular nonbank financial institution's risks" rather than the binary all-on or all-off prudential regulation for designated firms.

Chair Gruenberg also noted that he has already heard some criticism of the Basel III Endgame proposal, and arguments that it would push more activities to the "more lightly regulated 'shadow banks' and cause greater risk to the system." He concluded that "[t]he obvious response to that is there should be appropriately strong capital requirements for those activities in the banks, complemented by greater transparency, stronger oversight and appropriate prudential requirements for nonbanks. That would be the most effective and balanced way to enhance the stability of the entire financial system."

National Law Review, Volume XIII, Number 265

Source URL:https://natlawreview.com/article/fdic-chair-speaks-risks-nonbank-financial-institutions-resolution-large-regional