FedFin Client Report

Tuesday, October 3, 2017

New SIFI Standard Unveiled in AIG Action

Client Report: **SYSTEMIC84**

Executive Summary

Late Monday evening, FSOC released member statements leading to the Friday-night decision to end AIG's systemic designation. Most striking among these was Chair Yellen's regarding the reason she for the first time sided with Trump appointees against her fellow Obama hold-overs. As detailed in this report's analysis of FSOC action, Ms. Yellen did not make a clear statement in favor of activity-and-practice regulation versus designation even though global regulators have now generally agreed on the new approach. Instead, she focused narrowly on AIG's recent restructuring. FDIC Chairman Gruenberg stood firm in opposition to de-designation, noting in his statement that FSOC has used a new designation methodology. This is likely to be deployed for future MetLife and Prudential de-designation decisions, making them even more likely. The SEC Chair recused himself, leading Secretary Mnuchin to make a decision in favor of allowing a vote by six members to be considered two-thirds of the Council and thus sufficient for de-designation.

Analysis

Key features of major statements are:

- Yellen: The Fed chair defended the value of SIFI designation but pointed to AIG's restructuring as the rationale for de-designation.
- Noreika: The Acting Comptroller argued that tough, intrusive regulation is appropriate for banks, but not for insurance companies since they do not take demand deposits or present bank-like risk. Further, SIFI-designation inappropriately targets just one firm among similar competitors, has become politicized, is retrospective not forward looking, and is opaque.
- Cordray: Nothing has changed either at AIG or the financial system that warrants de-designation.

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- Gruenberg: AIG still has a large volume of runnable liabilities and the life and annuity businesses continue to pose systemic risk. Notably, Mr. Gruenberg highlights a new FSOC methodology that looks at smaller insurance companies under moderate stress to determine failure risks and externalities. This approach he says is ill-designed for a company such as AIG.
- Giancarlo: AIG's capital-markets and swaps positions are now very different and the market has also shifted to CCPs and similar entities, thus altering AIG's risk profile. CDS spreads also show that the market does not view AIG as high-risk. AIG's restructuring also now warrants de-designation.

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