PARTICIPANTS

Ken Scott, Kimberly Summe, Tom Jackson, Andrew Crockett, Richard Herring, Bill Kroener, John Taylor, Johannes Stroebel

ADMINISTRATIVE ISSUES DISCUSSED

Next meeting: October 31, 2pm

December 10th Meeting: A full-day conference with the title “Making Failure Tolerable” will be held at Hoover. The meeting will result in a publication similar to “The Road Ahead for the Fed”, with policy makers and their staff as the intended audience. The topics discussed will include and expand on the topics considered by the Resolution Project: It will not just consider Chapter 11 (f), but potentially also increased capital requirements and other proposals.

MAIN DISCUSSION

The group discussed the creation of a set of general criteria to apply to models of failure:

(1) The losses entailed in failure should extend beyond shareholders to creditors in proportion to the extent of loss and seniority of claims.

(2) Procedures regarding dealing with spillovers from failure beyond claimants on the firm need to be established. This may involve giving some party a payment to which it may not be entitled in a strict loss-allocation framework, and may potentially be in conflict with (1). Three relevant examples of such spillovers were considered in detail:

1. OTC derivatives:
2. Interbank Market Effects
3. Banks’ dependence on their ability to re-use collateral that clients are posting

It was decided that the RP needs to rationalize and review the existing categories of who can file for bankruptcy (insurance company, broker, bank holding company).

(3) Efficient liquidation was considered a crucial aspect of a new system for working out failure

(4) Consistency or predictability of regulatory behavior also is a crucial factor.