FDIC’s Hoenig: Swaps pushout repeal ‘illogical'

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FDIC Vice Chairman Thomas Hoenig today criticized Congress’ plan to undo the 2010 Dodd-Frank law’s so-called swaps pushout rule in a government funding bill.

"In 2008 we learned the economic consequences of conducting derivatives trading in taxpayer-insured banks. Section 716 of Dodd-Frank is an important step in pushing the trading activity out to where it should be conducted: in the open market, outside of taxpayer-backed commercial banks," Hoenig said in a statement. "It is illogical to repeal the 716 push out requirement."

Hoenig, a Wall Street critic, joined a rising chorus of Democrats, including Sens. Elizabeth Warren, Sherrod Brown, Debbie Stabenow and House Minority Leader Pelosi, who are slamming the proposed rollback.

"Derivatives that are pushed out by 716 are only removed from the taxpayer support and the accompanying subsidy of insured deposit funding — they will continue to exist and to serve end users,” he said. "In fact, most of these firms have broker-dealer affiliates where they can place these activities, but these affiliates are not as richly subsidized, which helps explain these firms' resistance to 716 push out."

Hoenig said almost 95 percent of derivatives would not be pushed out under the rule because interest rate swaps, foreign exchange and cleared credit derivatives can remain, as well as derivatives used for hedging. He said the main items that must be pushed out are uncleared credit default swaps, equity derivatives and commodities derivatives that are "in relative terms, much smaller and where the greater risks and capital subsidy is most useful to these banking firms."

— Zachary Warmbrodt

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