Statement by Hal Scott, Glenn Hubbard and John Thornton

Three immediate actions should be taken to prepare for a potential liquidity crisis and stabilize the U.S. economy: (1) The Federal Reserve should exercise its 13(3) authority to purchase commercial paper issued by non-banks; (2) Banking regulators should suspend bank liquidity requirements; and (3) Congress should restore the tools that halted the 2008 financial crisis. While we believe additional actions by the fiscal authorities are critical, our focus here is on the measures necessary to prepare for a potential liquidity crisis.

First, the Federal Reserve should immediately exercise its Section 13(3) authority to lend directly to non-banks. The Fed should do so by creating a lending facility, as it did in the 2008 financial crisis, to purchase commercial paper issued by <u>any</u> solvent non-bank. This facility should be established for an indefinite period of time and should be withdrawn only once the liquidity crisis has clearly subsided. There should not be a cap on the size of the Fed's lending facility. The creation of such a lending facility would enable the Fed to help ensure that a potential liquidity crisis does not become a solvency crisis for U.S. public companies.

Second, the Federal Reserve, FDIC and OCC should immediately suspend bank liquidity requirements, including the liquidity coverage ratio and supervisory processes, such as the living will process, that require banks to hold specified amounts of liquid assets. Bank liquidity, as in the past, can be provided by the Federal Reserve. Due to these liquidity requirements, banks may be hoarding over $4 trillion in highly liquid government debt. Suspending these requirements would enable banks to better lend to each other, non-bank financial institutions and corporations. The Committee on Capital Markets Regulation has long called for bank regulators to suspend these liquidity requirements to deal with a crisis.

Third, we emphatically support statements by Secretary Mnuchin indicating that the Treasury Department will seek Congressional support to restore the tools that were exercised during the financial crisis and then legislatively prohibited after the crisis. The Federal Reserve and FDIC should immediately join the Treasury Secretary in supporting such legislative reforms and Congress should quickly enact them. We have listed the key legislative actions below. The liquidity crisis created by the COVID-19 virus could cause further panic in financial markets and government guarantees may be necessary to stem that panic. If banking regulators and the Treasury Department have the necessary authority to quickly issue such guarantees, before any sign of a run, then the risk of contagion in financial markets would be greatly reduced.

Congress should take the following actions:

- Restore the Treasury Secretary's ability to use the Exchange Stabilization Fund to provide guarantees to money market funds and other financial liabilities.
- Restore the FDIC's authority to guarantee debt issued by U.S. banks, once a systemic risk determination has been made by the Secretary of the Treasury.
- Restore the FDIC's authority to provide unlimited guarantees on U.S. bank deposits, once a systemic risk determination has been made by the Secretary of the Treasury.
- Eliminate the requirement that Section 13(3) lending can only be made as part of a broad-based program.
- Eliminate the requirement that Section 13(3) lending can only be made with approval by the Treasury Secretary (preserves the political independence of the Federal Reserve).

- Rescind heightened collateral and solvency requirements that apply to Section 13(3) lending (appropriate collateral should be determined by the Federal Reserve and solvency is difficult to determine in a crisis).
- Rescind restrictions on banks' ability to pass discount window loans onto non-bank affiliates.
- Rescind 2-year public disclosure requirement for discount window borrowing (deters banks from asking for funding due to stigma concerns).
- Rescind requirement that Section 13(3) borrowing must be disclosed to Congressional leaders within 7 days and to the public within one-year (deters non-banks from asking for funding due to stigma concerns).

Robert Glenn Hubbard

John L. Thornton
Co-CHAIR

Hal S. Scott
PRESIDENT

R. Glenn Hubbard
Co-CHAIR