

**MEMO# 25356**

July 26, 2011

## **FSOC Issues Report to Congress on Secured Creditor Haircuts**

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TO: MONEY MARKET FUNDS ADVISORY COMMITTEE No. 45-11  
CLOSED-END INVESTMENT COMPANY MEMBERS No. 58-11  
SEC RULES MEMBERS No. 91-11 RE: FSOC ISSUES REPORT TO CONGRESS ON SECURED CREDITOR HAIRCUTS

Pursuant to Section 215 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Financial Stability Oversight Council recently issued a report evaluating whether allowing regulators utilizing the orderly liquidation authority authorized by Title II of the Dodd-Frank Act to treat a portion of fully secured creditors' claims as unsecured ("secured creditor haircuts") would promote market discipline and taxpayer protection.\* The report, among other things, describes the mechanics of secured creditor haircuts; evaluates their intended benefits and potential drawbacks; compares the treatment of secured creditors under different resolution mechanisms; and reviews other reforms that would help to achieve the same goals of market discipline and taxpayer protection as secured creditor haircuts would be intended to achieve.

The report supports the view that the combination of the orderly liquidation authority and the new supervisory framework for firms subject to heightened prudential standards provided by Title I of the Dodd Frank Act can be used to achieve the goals of market discipline and taxpayer protection effectively in the absence of secured creditor haircuts. The report also provides an overview of certain forms of secured lending, including repurchase agreements, securities lending, and sell-buyback arrangements.

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### **endnotes**

\* The report is available at

<http://www.treasury.gov/initiatives/Documents/Report%20to%20Congress%20on%20Secured%20Creditor%20Haircuts.pdf>.

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