

# [Too big to fail essay sample](https://assignbuster.com/too-big-to-fail-essay-sample/)

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Too Big to Fail is the idea that a business has become so large and ingrained in the economy that a government will provide assistance to prevent its failure. “ Too big to fail” describes the belief that if an enormous company fails, it will have a disastrous ripple effect throughout the economy. Read more: http://www. investopedia. com/terms/t/too-big-to-fail. asp#ixzz2GLsRVMT1

a)The movie was able to capture the events, decisions and strategies made both by the government and the private financial institutions during the US Financial Crisis. Which concept discussed in class was emphasized or demonstrated during the height of the financial crisis. Explain your answer.

–The financial crisis that is discussed in the film “ Too Big to Fail” is the effect of market and regulatory failure. The market failure took place for the reason that shareholders were not able to protect their own interests and neglected the fundamental measures needed to be done. In companies that reinforced excessive risk taking, compensation structures which show the framework of relatinships between the firm and its independent agents, and among the agents themselves, on the basis of which commissions are computed and along which they are passed on, were constituted. Even when lending regulations had become rigid, banks deliberately bought mortgages.

Meanwhile, thousands of officials who were expected to do their jobs and watch the stocks and funds, failed to protect large establishments. Even with the warnings conferred to them about the crisis close at hand, they chose to disregard it, keeping in mind that the market could modulate itself. To prepare for future disturbances like this, finding for a method that will make market incentives benefitial is necessary. Making such system will take time and effort but it is understandably essential so that the well-paid officials who are highly-fit for the job have use when they are called for. The concept discussed in class that was emphasized in the film is Keynesian Theory – an economic theory named after British economist John Maynard Keynes. The theory is based on the concept that in order for an economy to grow and be stable, active government intervention is required.

(Read more: http://www. businessdictionary. com/definition/Keynesian-theory. html#ixzz2GLkpwtz). The problem that triggered the financial crisis is the lack of intervention and effort from financial and external sector which mainly resulted to a contagion effect.

a)In your opinion, which part of the movie showed or discussed the most critical point in the series of events that happened during the US Financial Crisis. Explain your answer. Include discussions on what could have happened if the decisions made by the government officers were different.

–Michele Davis: They almost bring down the US economy as we know but we can’t put restrictions on how they spend the $125 billion we’re giving them because… they might not take it! [the Assistant Secretary of the Treasury for Public Affairs upon hearing that the 9 bank CEOs may refuse to take free money from the federal government if they had to be held accountable for how they spent it]. In this scene, it goes to show that banks cannot come clear on how the money goes in and out. With this being said, there is no wonder as to how the crisis started. The Chief Executive Officers of those 9 banks cannot bear the blame once things end up badly because they clearly know that money laundering is indeed taking place. They refuse to accept the money since they themselves are aware that the money that they will get will be used in different ways and purposes.

a)To a certain extent, the same financial crisis…   
•could happen in the Philippines in the future.   
•is sometimes experienced in the Philippines today   
•is always observed in the Philippines today.   
•will never happen in the Philippines.

–Even if a country has a good system, we must always make room for the unknown. The Greek crisis is a good example. They used to be one of the fireball countries in Europe until there came a point in time where they cannot pay for their debts anymore. There were bailout loans and austerity measures but up until now, they still are on their toes and trying to regain what they loss. In the Philippines, we cannot really foresee if this could happen in two or three years time because ever since President Benigno Aquino III became the president, so far, the Philippines has been doing well. But there is also an evident fact that we are a corrupt country to begin with.

We’re not too big to fail – top banks   
Reuters   
Posted at 07/04/2012 9: 09 AM | Updated as of 07/04/2012 9: 26 AM (http://www. abs-cbnnews. com/business/07/04/12/were-not-too-big-fail-says-top-banks)

Nine of the largest global banks on Tuesday expressed confidence they can be salvaged or dismantled without taxpayer bailouts if they became insolvent, as U. S. regulators released public portions of these banks’ “ living wills”.

The documents, required by the 2010 Dodd-Frank financial reform law, aim to end too-big-to-fail bailouts by mapping out ways that, in theory, mortally-wounded banks could go out of business without wrecking the financial system.

If regulators find that the resolution plans are not credible, they could force the banks to sell off business lines and restructure to become less complex.

But some experts doubt how hard regulators will push the banks for changes or how useful hypothetical resolution plans will be in major financial crisis.

The public portions released on Tuesday and are a few dozen pages per bank summarizing thousands of pages submitted confidentially to regulators.

The banks argued in the public documents that their resolution plans will work, with no cost to taxpayers or great consequence to the financial system. They used technical generalities in their conclusions without specifically addressing the unpredictable and vicious nature of a credit crisis.

Bank of America Corp, for example, said in its plan that “ certain assets and liabilities would be transferred to a bridge bank that would, subject to certain assumptions, emerge from resolution as a viable going concern.”

JPMorgan Chase & Co concluded that its plan “ would not require extraordinary government support, and would not result in losses being borne by the US government.” And, Goldman Sachs Group Inc said it would find a broad range of potential buyers for its assets, including global financial institutions, private equity funds, insurance companies or sovereign wealth funds.

The other banks which submitted wills were Barclays , Citigroup, Credit Suisse, Deutsche Bank, Morgan Stanley and UBS.

The Federal Reserve and Federal Deposit Insurance Corp released the plans without commenting on them.

Other large banks will have until July and December of next year to hand in their plans, according to the FDIC. Eventually about 125 banks are expected to submit plans.

The first plans come almost four years after the financial crisis unleashed a panic in which no institution seemed safe from a bank run and markets withdrew credit in what appeared to be inexplicable fashion. The U. S. government, in quick order, arranged a fire sale of investment bank Bear Stearns to JPMorgan and then allowed Lehman Brothers to fail, touching off a global market meltdown. Blanket government guarantees for the financial system and a $700 billion taxpayer bailout followed to ease the panic.

The disclosures on Tuesday give a glimpse of the kind of the kind of interconnections and complicated corporate structures that could still make governments fear letting big banks fail.

JPMorgan named 25 “ material” legal entities and 30 “ core business lines,” as required by Dodd-Frank and listed 18 clearing or financial settlement systems in which it is a member or participant, half of which are outside of the United States.

The full-length plans are believed to include the most comprehensive maps of the insides of bank holding companies ever created. They are intended to give regulators confidence that they understand enough of the consequences of bank failures to allow more to happen.

WOULD PLANS WORK?

Bert Ely, a banking consultant in Alexandria, Virginia, said he is skeptical that the overall process could work because there would likely be a lot of turmoil in the markets when the plans were needed, raising doubt about who might buy any assets.

“ The presumption of a one-off event is not realistically valid,” he said. “ You can have one company blow itself up, but more often than not there are systemic problems.”

Banks emphasized that they did not believe the resolution plans would ever have to be used. Morgan Stanley said that its “ hypothetical failure” would have to be caused by “ an idiosyncratic stress” that might occur while the economy and financial markets are under severe stress.

Guggenheim Partners financial policy analyst Jaret Seiberg said he doubts regulators will use their reviews of the plans to force big changes on the institutions.

“ Our initial review suggests there is little real risk that regulators could reject one of these plans,” Seiberg said in a note. “ That is important because regulators could break up a financial firm that fails to submit a credible plan.”

The regulators plan to give feedback to the banks on the initial plans by September.

Congress called for the plans in Dodd-Frank to ease concerns that some banks are so big and interconnected that taxpayers will inevitably bail them out to avoid a threat to global markets.

The FDIC gained new powers in Dodd-Frank to use the plans to dismantle failing financial giants if the bankruptcy process would not work.

Citigroup found a special reason to argue that its resolution planning would work: its wrenching experience in the 2007-2009 financial crisis.

To recover from the crisis, Citigroup separated businesses to be sold or gradually liquidated from those it is keeping as its “ core” pursuits. The company said that process meant its “ personnel would be well equipped to assist regulators” if the company had to be divided up into pieces to be sold or closed.

“ Citi is today a fundamentally different institution than it was before the crisis: smaller, leaner, safer, sounder, and completely focused on our core mission,” it said in the summary of its resolution plan.

Bank of America, used its 42-page public document to emphasize steps it has taken in recent years to streamline the company, build capital and improve risk management.

“ Bank of America has strengthened its risk culture as evidenced by improvements in consumer and commercial credit quality and decreases in market and counterparty risk,” it said.

Bank of America has lagged its rivals in recovering from the financial crisis, largely due to mortgage losses tied to its 2008 Countrywide Financial purchase.

INTERNATIONAL FRAMEWORK

Some of the foreign banks outlined resolution strategies for both home and U. S.-based regulators.

Deutsche Bank imagined high levels of international cooperation, noting it could be dismantled “ in an orderly manner with minimal systemic disruptions, and that any cross-border issues arising from financial, operational or other interconnections could be adequately addressed without significant difficulties,” it said.

Barclays said effective resolution plans are “ an integral component of eradicating ‘ too big to fail’ for the largest global financial institutions.”

It also noted how critical cooperation will be among international regulators.

Barclays submission, dated July 2012, was already out of date. It listed Marcus Agius as chairman and Robert Diamond as CEO. Both have resigned in response to a Libor interest rate rigging scandal.

Mitchell Glassman, a director at Deloitte Consulting who has worked with big banks on the living will issue, said he was impressed how much senior executives and directors were involved in preparing the plans. Still, he said, the question remains whether the plans on paper would work effectively in real-life.

“ Will this help Main Street? Will we be better off with this approach than we were in the last crisis?” Glassman said.