Witness: Sheila Bair, FDIC Chairman
Hearing: Regulatory Perspectives on the Obama Administration's Financial Regulatory Reform Proposals – Part II
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Improving Supervision and Regulation
Blair believes that incentives should be created to reduce the size and complexity of institutions.

- Capital and liquidity requirements should be raised.
- Leverage should be restricted.
- Systemically significant institutions should face even stricter requirements.
- Requirements should be countercyclical.
- Prompt Corrective Action[1] standards should be strengthened.

Financial Services Oversight Council
Blair agrees with the need to establish a Financial Services Oversight Council but does not believe that the proposed Council will have the authority to address systemic risk.

- To make the Council independent, Blair believes that its chairman should be appointed by the President and confirmed by the Senate, not automatically filled by the Treasury Secretary.
- The Council's main duty should be to ensure consistency among regulatory standards.
- The Council should consider requiring financial companies to issue contingent debt instruments that automatically convert into equity under certain conditions.

Resolution Authority
Blair believes that a resolution process should be established for both banks and non-bank financial institutions. Her criteria for a successful resolution process include:

- Stockholders and creditors (not the government) should be in the first loss position.
- The resolution process should be that which poses the least cost to the government.
- The resolution process should be under the purview of a single entity.
- The resolution authority should be able to assess fees to fund resolution.
- The resolution process should allow systemically significant operations to continue through the use of a bridge mechanism.

Consumer Protection
Blair supports the creation of a Consumer Financial Protection Agency (CFPA) but has several recommendations:

- Safety and soundness regulation and consumer protection should be coordinated.
- Efforts should be focused on the non-bank sector.
- Federal banking agencies should keep their authority to supervise insured depository institutions.
- The FDIC should be represented on the CFPA Board.

[1] Prompt Corrective Action is the law requiring the FDIC to be the receiver of financial institutions lacking sufficient capital. (http://www.law.cornell.edu/uscode/uscode12/usc_sec_12_00001831---o000-.html)