From:	Gerard Scimeca
To:	Comments
Subject:	[redacted]] August 19, 2024 Regulations Implementing the Change in Bank Control Act; Comment Request (RIN 3064-AG04)
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[redacted]

Good Afternoon --

I submit the following article I authored as a comment to:

> Regulations Implementing the Change in Bank Control Act
> Docket Number: RIN 3064-AG04

Thank you.

American Banker: The FDIC is proposing an unnecessary rule that will kill index funds

October 3, 2024
link

Every investor dreams of beating the stock market, just as they dream about having a golf handicap of zero and a perfectly green lawn without chickweed. "Dreams are what make life tolerable," says the best friend in the movie "Rudy" — the same film in which Rudy's father warns him that chasing dreams causes "nothing but heartache."

Leaving movies aside, the average investor knows, or quickly learns, that without a room full of analysts or the mental acuity of a mathematical savant, attempting to beat the market is a gamble that will end in defeat. But why even try to beat the market, given the S&P's robust 9.31% average annual returns over the past 150 years? Hence the rise of index funds — a generally passive investment built through a portfolio that mirrors the market for investors — greatly simplifying the process that aids their investors in achieving the dream of healthy annual returns.

Index funds are immensely popular for their simplicity, low management fees and their history of outperforming actively managed funds. Because of that, they have become a very attractive way to build wealth for millions of Americans, many of whom are small-dollar investors who cannot afford the higher fees of active trading accounts.

Of course, whenever the working and middle classes find a small edge or advantage to gain upward mobility, the elites in control inevitably arrive on the scene to stand in their way. Such is the case today, with board members of the Federal Deposit Insurance Corp. suggesting they should limit how much equity an index fund can hold in a bank. For active traders, the current maximum is ten percent, though this can be exceeded with government approval. Index funds are currently exempt because they simply replicate a market index, and they do not nominate directors or board members; they just vote. Yet now, the FDIC is considering removing their exemption.

The FDIC is an agency in total disarray, having lost the public trust through investigations unearthing a stunningly toxic work environment involving rampant sexual harassment, retaliation and racial discrimination, ending with the recent announcement of the pending resignation of Chairman Martin Gruenberg. One would think the agency would prioritize getting its own house in order as opposed to finding ways to target the investments of average Americans.

The FDIC still hasn't accounted for its total fumbling of the Silicon Valley Bank failure, or how it managed to hand Bloomberg News the list of the bank's depositors. This is also the same FDIC currently keeping millions of dollars it supposedly insured tied up in bankruptcy court, leaving thousands of Americans locked out of their accounts. The fact that an agency with such sweeping powers over our nation's banking system has yet to answer for its staggering ineptness and inconsistency should concern every American, even as they blithely propose more power over investors at every level.

The FDIC hints that the proposed rule change would make it harder for index funds to influence policy and personnel at banks where they hold stakes. However, these index fund managers are like other investors and merely get a vote and, by their very nature, are simply trying to mirror the market.

To this end, the FDIC's proposed rule changes would effectively make it impossible for many index funds to remain index funds. By definition, an index fund mirrors a specific stock index. If they are unable to purchase shares of a bank to reflect the activity of a given index, they will be gutted of their rationale and purpose. If index funds are forced to become something else, most likely actively traded funds, fees will rise, profits will drop and average Americans will get squeezed out, as always.

Modifying the process and caps of ownership here, then, is a pointless government overreach, especially since the FDIC has presented zero evidence that any index fund has been abusing its current status. Perhaps it should worry instead about the risk of hundreds of small and regional banks across the U.S. being stressed and nearing failure?

The FDIC is an erratic agency proposing a needless rule change that actively harms ordinary Americans while doing nothing to fix any perceived issue in the banking sector. Their pointless attack on index funds demonstrates the agency's commitment to double down on its well-earned reputation as a poster child for government incompetence and Washington's never-ending power grab.

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