FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION
NEWS RELEASE

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NEW FDIC STUDY CALLS FOR LOOSENING CONTROLS
ON BANKS, ENHANCING SAFETY SUPERVISION

FDIC Chairman L. William Seidman today announced the release of an FDIC study on financial restructuring which calls for a relaxation of restrictions on bank powers, ownership and affiliates, while strengthening the safety and soundness supervision of banks.

Mr. Seidman, in a speech to the Economic Policy Conference of the Kansas City Federal Reserve Bank, said the FDIC study finds "no inherent basis" for maintaining the separation of finance and instead suggests that restrictions in the Glass-Steagall Act and much of the Bank Holding Company Act be eliminated.

The FDIC leader said a review of history shows that bank regulation in the United States has swung between periods of strict control and relative freedom, but the separation of banking and commerce has not been fundamental to our financial system.

Mr. Seidman said the study indicates that banking needs to be able to attract more capital if it is to remain sound. Greater freedom to compete is essential to achieving this goal and to providing consumers with better services. The basic question, he said, is whether a workable "wall" of supervision can be built around a bank that would insulate and protect its activities from those of a nonbanking owner or affiliate.

The study indicates that the professional supervisory staff of the FDIC, based on its 54 years of experience, believes this can be accomplished. Mr. Seidman suggested that would mean that "direct regulatory or supervisory

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authority over nonbanking affiliates, or even bank owners, is not necessary." Such a system, he said, would result in a simple, practical and cost effective structure.

Chairman Seidman said the FDIC's senior supervisory staff believes that with proper tools, regulators would be able to control the small minority of bankers who might be prone to abuse the rules. For the vast majority of bankers, he said, "it would mean new freedom to improve their competitive position, as well as the capital and safety and soundness of their institutions."

Mr. Seidman said the FDIC supervisory staff has identified the following tools for effective safety and soundness supervision:

- Retain limitations on dealing with nonbank affiliates and extend them to banks' nonbanking subsidiaries.

- Affirm that a bank is not responsible for any action of an affiliate.

- Enhance regulatory authority to audit both sides of any transaction between a bank and its subsidiaries or affiliates.

- Authorize the collection as needed of certain financial data from bank affiliates.

- Require that any nonbanking activity be housed outside the bank and that any equity investment in such business not be counted in the bank's supervisory capital.

Because today's financial marketplace is more complex and moving at a higher velocity than in any previous era, Chairman Seidman proposed that the restructuring of the banking system proceed on "a middle course that combines a step-by-step move toward a freer system and an evaluation of the success of each step as it is taken."

Chairman Seidman suggested that this approach will proviude a safer and sounder, more consumer-oriented system and simpler and more cost effective regulation.

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