FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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A "SUPERVISORY WALL," NOT LEGAL RESTRICTIONS, WOULD ENSURE SAFETY AND SOUNDNESS

A "wall" assembled from existing and additional supervisory tools, rather than restrictive laws, would permit regulators to ensure insulation between banks and securities affiliates and, at the same time, effectively guard the safety and soundness of the banking system, FDIC Chairman L. William Seidman stated today.

Moreover, Mr. Seidman said in testimony before the House Subcommittee on Telecommunications and Finance, changes in supervisory authority that have been proposed to govern banks' securities activities through subsidiaries should be extended to all activities considered too risky for banks to engage in directly or inappropriate for the use of insured deposits and the federal safety net.

Mr. Seidman, noting that the FDIC's views and specific recommendations on available and needed supervisory tools are contained in a new study on restructuring the financial services industry, said many of those tools are already in place, but more are needed to ensure effective supervision of conflict of interest, a key factor in insulating insured deposits from securities activities. "Supervising conflicts of interest is the key to an effective supervisory wall," the Chairman stated.

The supervisory challenge in creating a "safety and soundness" wall is to identify and restrain the minority who will abuse the system, Mr. Seidman pointed out. With the right tools, he added, most abusers would be caught, and would not pose a threat to the system's safety.

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The market itself, along with appropriate supervision, can foster public confidence in the banking system, Mr. Seidman said. "The market will view different units within an organization as distinct corporate entities if they are, in fact, treated that way as a matter of law. As bank supervisors and the courts make distinctions between banks and their holding companies and affiliates, the market will do the same," he explained. "Thus, problems in an affiliate or subsidiary need not place a bank at risk."

As one way to mitigate competitive imbalance -- another significant area of concern in considering financial industry restructuring -- the Chairman said Congress could outline the types of activities that banks may conduct. "In the absence of such guidelines," he proposed, "Congress should designate federal regulators to make the individual decisions regarding appropriate bank activities."

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