FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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SEIDMAN SAYS FUNCTIONAL REGULATION SHOULD RESULT FROM BANK REFORM

FDIC Chairman L. William Seidman today commended the American Enterprise Institute for undertaking an objective study of bank deregulation and noted that the AEI's study confirms the FDIC's conclusion that strong supervision, not additional layers of regulation, is the key to protecting banks from activities of subsidiary or affiliated organizations.

Simplification of the bank regulatory structure while strengthening supervisory programs will help banks compete in a modern financial services marketplace without creating the need to dramatically change the roles and responsibilities of bank supervisory agencies, Seidman said.

Addressing a conference sponsored by the AEI, Mr. Seidman observed: "Economic and supervisory turf now is guiding much of the discussion of bank deregulation and appropriate regulatory structures. What should be recognized is that eliminating the costly layers of overlapping regulatory jurisdiction will help banks compete without radically changing bank regulators' traditional supervisory roles."

"A safety wall approach to deregulation can adequately insulate banks while supervisors protect the system and guard against conflicts of interests," Mr. Seidman commented. "The resulting functional supervision would permit nonbanking activities to be undertaken in subsidiaries or affiliates, thus eliminating the need to force approximately 4,500 banks to establish holding companies in order to profit from nonbanking marketplace opportunities," he added.

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Mr. Seidman noted the FDIC's staff study of bank reform does not suggest changing the system of regulatory roles and responsibilities now in place.

"Although we believe industry restructuring comes first and regulatory powers second, if pure functional regulation is adopted no real turf is involved because no bank regulator will regulate more or less than it does now," Mr. Seidman said.

As regulators, the Congress, and the financial services industry proceed with the industry reform debate, Chairman Seidman said they should explore whether holding companies of banks and other operations should be regulated for safety and soundness.

In addition, Mr. Seidman said the question of whether large and small banks should operate under different rules and under the supervision of a different regulator should be evaluated.

"There are many proposals for changing the industry, and many issues beyond protecting our own regulatory turf which must be fully explored," he said.

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