



NEWS RELEASE

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FDIC CHAIRMAN SAYS PROXMIRE-GARN PROPOSAL IS GOOD FIRST STEP,
D'AMATO-CRANSTON BILL IS POSSIBLE FRAMEWORK FOR FUTURE OF INDUSTRY

FDIC Chairman L. William Seidman today endorsed financial industry restructuring legislation introduced in Congress last week by Senators William Proxmire and Jake Garn, saying the FDIC views the bill as "a sound first step in enhancing the competitiveness of the financial services industry."

While expressing support for the Proxmire-Garn bill (S. 1886), Mr. Seidman said another bill, introduced by Senators Alfonse D'Amato and Alan Cranston (S. 1905), appears to provide the basis for a long-term approach to broad reform. "We believe it provides the kind of additional bank regulation the FDIC study on banking restructure proposes while allowing freer competition in the financial system as a whole," Mr. Seidman said in testimony before the Senate Committee on Banking, Housing and Urban Affairs.

The Proxmire-Garn bill and the D'Amato-Cranston bill provide for extensive insulation of banks from the activities of their securities affiliates, Mr. Seidman noted. Yet, the insulation mechanisms "strike a good balance between adequately insulating banks on the one hand, and allowing banks and their securities affiliates to benefit from natural synergies on the other."

Commenting further on S. 1886, Mr. Seidman said the FDIC applauds the "significant movement" toward functional regulation reflected in the bill, namely, the regulation and supervision of securities affiliates by the Securities and Exchange Commission. S. 1905 goes the furthest of all the bills in the area of functional regulation, he observed, by leaving the existing regulatory structure for banks in place and requiring all securities, insurance and real estate activities to be moved into an affiliate.

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Mr. Seidman termed "appropriate" the provision in S. 1905 establishing a new National Financial Services Committee as a coordination mechanism for existing regulatory agencies during times of financial crisis.

Mr. Seidman took exception to the Proxmire-Garn bill's requirement that new securities activities be conducted through holding company affiliates and not direct subsidiaries of banks. With adequate insulation, "from a safety and soundness viewpoint it is irrelevant whether nonbanking activities are conducted through affiliates or subsidiaries of banks," he stated. "We believe that risks and exposure to safety and soundness are the same -- so banks should be permitted to opt for the corporate structure that best suits their business plans."

A third bill, S. 1891, introduced by Senators Timothy Wirth and Robert Graham, "is not an approach to financial restructure that we can support," Mr. Seidman said, "because it moves toward increasing government regulation of the entire financial system rather than increased supervision of insured depository institutions."

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