



# PRESS RELEASE

Federal Deposit Insurance Corporation

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## **FDIC SEEKS COMMENT ON EFFORTS TO SIMPLIFY REGULATIONS**

### FOR IMMEDIATE RELEASE

The FDIC moved ahead today in its ongoing review of policies and regulations as the Corporation's Board of Directors voted to seek comment on how to simplify rules governing deposit insurance coverage and recordkeeping requirements for securities transactions.

In addition to approving the two advance notices of proposed rulemaking, the FDIC's Board of Directors also rescinded two policy statements that are either no longer applicable or covered elsewhere in the agency's regulations. The first deals with capital forbearance and the second with bank purchases of so-called "leeway securities," which are issued to fund civic and community related projects.

"The board's action today is another step by the FDIC to clear away regulations that frustrate bankers as well as their customers," said Director Joe Neely, who is leading the agency's top-to-bottom review of rules and procedures.

"The rules governing deposit insurance coverage can be complex and confusing for both bankers and their customers in this regard, and we are asking bankers and consumers to advise us on what steps we should take to make life easier for the nation's depositors," he added.

"The recordkeeping requirements for securities transactions have become burdensome for banks and confusing for customers," Director Neely continued.



Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. It promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars — insured financial institutions fund its operations.

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FDIC chairman Ricki Helfer, who asked Mr. Neely to direct the agency's regulatory review, said the process will result in rules that are easier for customers of banks to understand.

"We know, for example, from the letters and phone calls we receive, that bank depositors have trouble understanding some provisions in our deposit insurance regulations," Chairman Helfer said.

Among the possible changes the FDIC is considering in the area of deposit insurance simplification is whether to have one simple test for determining joint account coverage. The current rules, which are complex and often misunderstood by bank customers, employ a two-step test. First, all joint accounts with the same combination of owners are added together and the \$100,000 limit is applied. Next, each person's share of insured accounts is totaled and the \$100,000 limit is again applied. Under the first test, a two-person joint account with \$150,000 would carry only \$100,000 of insurance, even if the individuals owning it had no other accounts in that institution.

The FDIC is considering insuring each person's share in all joint accounts at the same institution for up to \$100,000 in the aggregate -- a change that would greatly simplify the rules without decreasing coverage for depositors. Moreover, in the example above, the account would be fully insured since each owner would be entitled to \$100,000 in insurance.

Other elements of the proposal include:

Changing the rules on the insurance coverage of "payable-on-death" accounts. These trust accounts, also often called tentative, "Totten" or revocable trusts, can qualify for special insurance coverage if the beneficiary is a spouse, child or grandchild of the account's owner.

Providing for a grace period after a depositor's death before adjusting the insurance coverage on that person's accounts. For example, under current rules a joint account for a husband and wife automatically could become the surviving spouse's money when the other dies. That alone could limit the survivor of a joint account's insurance coverage to \$100,000.

Among the other regulations identified by the FDIC for possible revision are the rules dealing with funds that employers place in employee benefit plan accounts (such as pension plans and 401(k) plans) and with revocable trusts.

Comments on deposit insurance simplification will be due 90 days after the FDIC's notice appears in the Federal Register.

### Securities Recordkeeping

The FDIC is also soliciting comments on its recordkeeping and confirmation requirements for securities transactions by state nonmember banks. The regulations now in effect were issued in 1979. The agency has identified a number of issues that

should be addressed to modernize the regulations to reflect changes in securities activities since the regulations were issued and the role of other Federal agencies that supervise securities transactions.

In particular, the FDIC would like public participation in defining the term "effecting a securities transaction" and whether and when banks should disclose the source and amount of remuneration received from securities transactions.

The FDIC currently interprets the term "effecting a securities transaction" to include transactions executed by bank employees as well as those conducted by third parties located on bank premises for which the bank receives transaction-based compensation. Specifically, the FDIC is interested in whether third-party transactions should be excluded and, if so, how.

The FDIC is also interested in comments on the need for disclosure of the source of remuneration and, if necessary, when that disclosure should be made. As banks have become more heavily involved in executing securities transactions for their customers, the FDIC has become aware of practical problems relating to the timely disclosure of the source and amount of the bank's remuneration.

Comments on that advance notice of proposed rulemaking will be due 30 days after publication in the Federal Register.

"Today's action is an example of the FDIC's commitment to streamline, consolidate and eliminate rules that contribute unnecessarily to the industry's regulatory burden," Director Neely added. "Bankers can look forward to many more announcements in the weeks and months ahead."