



PRESS RELEASE

Federal Deposit Insurance Corporation

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CHAIRMAN TIGERT ANNOUNCES SPECIAL TASK FORCE TO ANALYZE RISKS TO DEPOSIT INSURANCE FUNDS OF DERIVATIVES, OTHER CAPITAL MARKET INSTRUMENTS

FOR IMMEDIATE RELEASE

FDIC Chairman Ricki R. Tigert announced today the creation of a special task force to analyze and make recommendations regarding the potential risks posed to the federal deposit insurance funds by capital market instruments, including derivatives. The task force will consist of a steering committee and various task groups. The steering committee will be headed by William R. Watson, Director, Division of Research and Statistics, and will include representatives from most of the FDIC's Divisions and Offices. The task force is charged with evaluating the risks of capital market instruments to the federal deposit insurance funds.

The task force will develop strategies to manage these risks and respond to potential problem situations. The FDIC will draw on a wide range of parties to help in this effort, including dealers, end-users, regulators, academics and others who follow or participate in these markets. In announcing the creation of the special task force on capital market instruments, Chairman Tigert noted: "Federally insured depository institutions and their regulators should not let the current good health of the banking industry cloud the lessons of the past. If and when problems recur, the FDIC must be prepared to act decisively to protect depositors, dampen disruptions in financial markets, and minimize the cost of deposit insurance. The work of the capital markets task force will better enable the FDIC to fulfill this mission." The task force will develop a set of recommendations that will enhance the ability of the FDIC to understand, measure and control the risks posed by capital market instruments, including derivatives, to the deposit insurance funds. As part of this effort, the task force will recommend measures necessary to enhance the FDIC's ability to respond appropriately to the possibility that



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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failed banks could be involved in these capital market activities and to situations in which these activities could pose a systemic risk that threatens the deposit insurance funds or the financial system. Capital market instruments can provide substantial funding, liquidity, and benefits in risk management to many segments of the domestic and international economies. Antecedents to present-day capital market instruments reach far back in history. What is new, however, is the unprecedented growth in these instruments and the advances in technology that enable practitioners, including insured depository institutions, to condition their income streams on ever-more- complex financial relationships. To the extent that these complexities -- including the global nature of the inter-linkages between market participants -- are not well-understood or are mismanaged, capital market instruments can result in losses that may take management and regulators by surprise. The past decade has shown that deposit insurance can be extremely costly if risks are not understood and managed adequately. Real-estate lending was responsible for most of the recent losses, but future episodes may feature other activities. In this regard, the explosive growth and complexity of capital market instruments raise sufficient warning flags to require greater attention. There is no reason to believe that the capital market activities of any insured financial institution pose a significant risk at this time to the deposit insurance funds. However, as the insurer of banks and thrift institutions, the FDIC has a vital interest in preventing and containing any potential problems posed by these complex instruments. Consequently, Chairman Tigert has directed the task force to address these issues.

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