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Statement of the Shadow Financial Regulatory Committee

on

The Proposed Federal Banking Commission

December 13, 1993

The Clinton Administration recently proposed combining the supervisory and regulatory functions of the four federal banking agencies (Comptroller of the Currency, Federal Reserve Board, Federal Deposit Insurance Corporation and Office of Thrift Supervision) into a single Federal Banking Commission. Under the proposal, the Federal Reserve Board would retain responsibility for monetary policy, the payments system, and liquidity. The FDIC's role would generally be limited to insuring deposits and resolving failed and failing banks.

The objectives of the agency restructuring, according to its drafters, are consistency of regulation and implementation, improvement in efficiency, improved accountability and greater independence of regulatory and supervisory actions from political influence.

The Committee believes the proposed restructuring is a step forward in reducing the increased complexity of the depository institution regulatory structure. The current structure is fraught with duplication, imposes unnecessary costs on the industry, has resulted in inconsistent policy, and has permitted the agencies to avoid accountability by diffusing responsibility. In addition, the political independence of the supervision of federally chartered depository institutions has eroded over the past twenty-five years.

Rationalization of the regulatory process has always been frustrated by agency turf battles unrelated

to substance. The most vigorous opponents of reform have been the agencies themselves. In particular, the Federal Reserve has claimed that participation in bank supervision and regulation is necessary for it to deal effectively with systemic risk and liquidity crises. The Committee disagrees.

Under the Administration's proposal, the Federal Reserve will have sufficient information, independence, and control to implement monetary policy, and will have the capacity to deal effectively with liquidity crises and systemic risk. The Federal Reserve will retain full access to other agencies' examination reports and will retain its powers with respect to open market operations, reserve requirements, the discount window and payment functions, such as daily overdraft exposure.

A potential objection to the Administration's consolidation proposal is that it may harm consumers of financial services in the long run by limiting the regulatory choice that banks have historically had. In the past this choice has often enhanced market competition and facilitated innovation. While this Committee has been receptive to this view in the past, market evolution has lessened the need for regulatory competition in the banking industry. Today, intense competition between banks and nonbank financial institutions provides ample opportunity for consumers of financial services to reap the full benefits of competition and financial innovation.

While the Committee supports the Administration's proposal as a useful first step, it recommends the following:

(1) to enhance protection of the deposit insurance fund, the Chairman of the FDIC should be a member of the Commission;

(2) to enhance the independence of the Commission, the Secretary of the Treasury should not be a member, nor should the Commission be dominated by ex officio members;

(3) that any such restructuring should be combined with an agency internal organizational structure that enhances regulatory accountability;

(4) that supervisory restructuring is not a substitute for the substantive regulatory reform that changes in technology, markets, and social needs demand; and

(5) that credit unions should be included.