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Administrative Office
c/o Professor George Kaufman
Loyola University of Chicago
820 North Michigan Avenue
Chicago, Illinois 60611
TEL (312) 915-7075
FAX (312) 915-6118

Statement No. 103

For information contact:

Franklin R. Edwards
(212) 854-4202

Edward J. Kane
(617) 552-3986

Statement of the Shadow Financial Regulatory Committee
on

PRINCIPLES OF REGULATORY RESTRUCTURING

February 14, 1994

A number of proposals have been made to reorganize the powers and responsibilities of federal agencies that regulate and supervise depository institutions. As an aid to evaluating these proposals, the Committee recommends that the following policy goals and institutional principles guide any agency restructuring.

I. General Objectives of the Regulatory and Supervisory Structure

Restructuring proposals should be judged in terms of the following five objectives:

1. to increase the operational efficiency of financial institutions and regulatory bodies;
2. to improve the efficiency of financial markets in the allocation of resources;
3. to assure ample opportunity for innovation in financial markets;
4. to better control deposit insurance loss exposure; and
5. to make monetary policy more effective.

II. Implied Principles of Supervisory and Regulatory Structure

1. Effective regulatory, supervisory, and monetary-policy performance requires that responsible authorities be held accountable for the decisions they make. Accountability is fostered by:
 - a. clarity in goals and policies;
 - b. transparency of policy decisions and the underlying decision criteria;
 - c. consistent application of policies, across institutions and over time;
 - d. insulation of policies from short-term political considerations; and
 - e. the assignment of potentially conflicting goals to separate agencies. Responsibility for monetary policy and prudential regulation should not be lodged in the same supervisory agency. Responsibility for approving new institutions and products should be separated from the insurer or guarantor responsibility.
2. Operational efficiency of supervisory authorities is enhanced by simplification of the regulatory and supervisory structure.