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Remarks of

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Board of Governors
of the
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before the

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One World Trade Center

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I appreciate the opportunity to participate in this panel on the International Banking Act of 1977. The topic is a highly appropriate one for this First Annual World Banking Congress. The efforts in this country to provide a national regulatory framework for foreign banks are important to the role of New York as a world financial center, to the position of the United States in world trade and finance, and to the structure of world banking.

As many of you know, for several years the Federal Reserve has been advocating legislation to provide such a national regulatory framework. The Federal Reserve strongly supports the current bill, H.R. 7325, the International Banking Act of 1977, with certain amendments that we suggested during the hearings held last July. That bill is scheduled to be marked up by the Subcommittee tomorrow[?] and I would hope that it would soon thereafter be reported out for floor action in the House of Representatives. I would further hope for early House enactment so that the bill might progress in the Senate, if not this year then at least early in the new year.

I do not propose to go into the details of the legislation. Rather, I shall recapitulate some of the reasons why it is important to have this legislation and why it should be enacted now.

The multinational character of contemporary banking needs no emphasis to this audience. Nor do I need to underline the indispensability of a sound international banking system to the functioning of the world economy. The migrations of the major banks of the world into all the corners of the world have brought vital new forces into the operation of national banking and credit markets. The creation of large international networks by these banks has clearly resulted in a capacity for financial operations that has proven essential for the financing of payments imbalances in the last few years as well as for the further expansion of world trade and investment.

In this new order of multinational banking, it is not surprising that national regulatory frameworks are being reviewed to see if they are adequate to the present-day needs. They should be. More information is being collected at both national and international levels about international lending and other international banking activities. That information is valuable to all participants. A further development is the international consultation among bank supervisory authorities that now takes place on a regular basis. All of this evidences recognition of a need to rationalize national regulatory

structures with the emerging new world of international finance.

I look upon the efforts in this country to establish a national policy on foreign banks as part of this broader development. The United States has welcomed foreign banks into its marketplaces. The entry of foreign banks has clearly brought a wide range of international financial services to American business and investors and has equally clearly contributed to vigorous competition in the markets for banking services. The establishment of a national policy on foreign banks would help assure that the welcome for foreign banks would continue as would the public benefits that entry has brought to our commercial and financial markets. An important objective of the current legislation is to achieve this by incorporating the foreign banking community fully into the American banking system.

The importance of foreign bank operations in the United States today cannot be denied. As I have repeatedly underscored in Congressional testimony and elsewhere, foreign banks occupy significant and highly visible places in markets for money and credit in this

country. They can by no means be considered as being on the fringes of the banking scene. Compare their operations with those of the largest domestic banks: their commercial and industrial loans are nearly one-fifth of those extended by the large weekly reporting banks. Their money market operations are also highly significant. Nor are individual operations small. One bank's total operations in this country measure around \$14 billion. Many others are also very large.

Banking operations of this magnitude and significance obviously cannot be ignored in terms of their effects on banking structure and the conduct of monetary policy. Any outside observer might well wonder why this rapidly growing sector has been neglected this long. The Federal Reserve, as the nation's central bank, is vitally concerned lest its ability to conduct monetary policy be eroded by the exclusion of this important banking sector from its monetary rules.

Why enact legislation now? I frequently hear the argument that any legislation dealing with foreign banks should be held back pending action on other broad legislative initiatives dealing with the structure of the banking system. The initiatives in mind are usually

those relating to the Glass-Steagall Act and to inter-State branching. If there were any prospect of early legislative resolution of these issues, the argument would carry more weight. Realistically, it has to be recognized that these issues go to the fundamentals of the domestic banking structure; as such, they are controversial and not at all likely to be quickly resolved. In the meantime, as the foreign banking sector continues to grow, it becomes progressively more difficult to deal fairly by means of grandfathering with existing nonconforming activities. Also, in the meantime, this sector is not subject to the monetary rules of the central bank.

Since the efforts to enact legislation in this field were begun several years ago, considerable progress has been made. The legislative proposals have been changed significantly to meet some basic objections. There is now, I believe, a wide measure of agreement about the permanent grandfathering of nonbanking operations, including securities affiliates, as the most equitable means of dealing with this problem. We at the Federal Reserve have made a number of suggestions which we believe will reduce the remaining points of controversy. We believe that a bill enacted with these

amendments would provide national treatment for foreign banks, deal equitably with their existing operations, and establish a framework of certainty for their future activities in the United States.