# FINANCIAL MARKET BEHAVIOR AND APPROPRIATE REGULATION OVER THE BUSINESS CYCLE
# 38TH ANNUAL CONFERENCE ON BANK STRUCTURE AND COMPETITION

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## Welcoming Remarks

Good morning, I'm Michael Moskow, president and CEO of the Federal Reserve Bank of Chicago, and I'd like to welcome you to the 38th annual Conference on Bank Structure and Competition. This year's program continues a rich tradition, and I'm pleased to see that once again we have an outstanding turnout.

Since the 1960s, the conference has served as a leading forum for the discussion of public policy issues affecting the financial services industry. It also has played a major role in encouraging research and informed debate on the most relevant issues of financial regulation.

Our first Bank Structure Conference in 1963 discussed recent developments within the banking industry. It focused on the Bank Merger Act of 1960, which required regulators to consider competitive factors when evaluating mergers; and a Justice Department suit to stop a merger by the Philadelphia National Bank, which was a pivotal case in U.S. banking history.

The conference continued to evolve as the nature of the financial services industry changed. In the 1970s, we focused on deregulation; in the 1980s, on the financial safety net; in the 1990s, on global financial crises.

Now, after a decade of unprecedented economic expansion, recent events have reminded us that the business cycle has not been eliminated. That's why our theme for this year is so relevant: "Financial Market Behavior and Appropriate Regulation over the Business Cycle."

Over the two-day conference, we will explore the forces that drive the behavior of financial firms during the business cycle. We also will examine how these firms respond to changing credit and market conditions. Further, we will evaluate the alternative policy options available to regulators across the cycle, and the impact those options may have on the industry.

These topics raise many public policy issues:

- Are financial firms more resilient to economic shocks today than in the past?
- As conditions deteriorate, how accurately and quickly do supervisors identify problem banks?
- Do current capital requirements, and regulation in general, exacerbate business cycles?
- What are the advantages and disadvantages of incorporating a counter-cyclical component into the new Basel Capital Accord?
- Should regulation and supervision attempt to smooth the business cycle?

To evaluate these and related issues from various perspectives, we have assembled an elite group of regulators, bank analysts, bank consultants, industry executives and academics.

Before we begin, I should note that we've made a few changes in the order of the presentations. Chairman Greenspan's keynote address will now be on Friday morning. And we've moved a session from Friday into this morning's slot. It's the panel discussion of the implications of September 11 on the financial services sector, which will be of special interest to all of us. We really appreciate the members of this panel being willing to move up and kick off the conference.

The first panel will be followed by the theme panel. Then we will have sessions over the two days that address various aspects of financial industry performance and regulation, including bank capital reform, regulatory structures and practices, consumer welfare, bank expansion, market concentration and macroeconomic behavior.

We are extremely fortunate also to have two very special luncheon presentations. Today, John D. Hawke, U.S. Comptroller of the Currency, will present his views on current regulatory issues. Tomorrow, Donald Powell, the newly appointed Chairman of the Federal Deposit Insurance Corporation, will share his vision for the FDIC.

I think you will find the presentations and interaction at these and other sessions during the conference to be most informative. Thank you all for coming to Chicago, and I look forward to meeting as many of you as I can during the conference.

Now I'll turn the podium over to Bob Yohanan, who will moderate the panel on the implications of 9-11 for the financial services sector. Bob is chairman and chief executive officer of First Evanston Bancorp in Evanston, Illinois, and a director of the Chicago Fed.