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Testimony by
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Chairman, Board of Governors of the Federal Reserve System
before the
Committee on Banking, Housing, and Urban Affairs
United States Senate

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Mr Chairman, I am pleased to appear today before the Senate Banking Committee to give the views of the Federal Reserve Board on proposals to consolidate the banking regulators into a single agency. We have prepared a detailed analysis of such proposals, which I have attached to my statement. My remarks this morning will highlight that analysis.

The proposals to create one federal bank regulator have the clearly stated objectives of reducing the government's costs of regulating and supervising banks, of reducing bankers' costs and burdens from duplicative examination and overlapping supervision, and in general making the supervisory process more efficient and more accountable. The Federal Reserve Board shares these goals, but disagrees with the approach of one regulator for achieving these objectives. However, the Board believes that it is possible to achieve virtually all of these proposals' objectives without creating the risks of one regulator that so trouble us.

In reaching this conclusion, the Board tested various proposals against the fundamental principle that the purpose of regulation is to enhance the capability of the regulated entity to contribute effectively to the nation's long term economic growth and stability. We have concluded that for this to be accomplished four subsidiary principles must be achieved:

- First, there should not be a single monolithic federal regulator.
- Second, every bank should have a choice of federal regulator.
- Third, there should be only one federal regulator for all of the depository institutions in any single banking organization.
- Fourth, the U S central bank should continue to have its essential hands-on involvement in supervision and regulation.

A consolidated single regulator would deprive our regulatory structure of what the Board considers to be the current invaluable restraint on any one regulator conducting inflexible, excessively rigid policies. Laws on bank regulation and supervision must be drawn very generally leaving the specifics to agency rulemaking. This vests the agencies with a broad mandate and a not inconsiderable amount of discretionary power. Hence, a safety valve is vitally needed to avoid the exercise of arbitrary actions. A denial of, or severe limitation of, charter choice closes off a safety valve inevitably leading to greater micromanagement of banks and a lessened market for bank credit. We must avoid a regulatory structure that inhibits economic growth.

The present structure provides banks with a method—albeit one neither easily accomplished nor often taken—of shifting their regulator, an effective test that provides a limit on the arbitrary position or excessively rigid posture of any one regulator. The pressure of a potential loss of institutions has inhibited excessive regulation and acted as a countervailing force to the bias of a regulatory agency to overregulate.

The dual banking system and multiple federal regulators have facilitated diversity, inventiveness, and flexibility in our banking system, so important to a market economy subject to rapid change. A single federal regulator would effectively end the dual banking system. It would become an empty shell if a state-chartered entity had no choice of federal regulator or—reflecting a recent FDICIA provision—different asset

powers. The dual banking system cannot survive consolidation at the federal level. I, as well as my colleagues on the Board, believe that would be a tragic loss.

In addition to the effective loss of the dual banking system, the single regulator contemplated in current proposals would be disconnected from broad economic policy issues. This is a problem because a regulator that does not have macroeconomic responsibility for its actions is likely to inhibit prudent risk-taking by banks, thus limiting economic growth and stability. The central historic purpose of banking is to take risks through the extension of loans to businesses and others. Economic growth in our system could not occur without risk-taking by entrepreneurs and small and large businesses. Risk-taking requires financing. Thus, either an unwillingness or an inability of lenders to take risks would slow the expansion of our nation's employment and income. This fact creates a significant policy tradeoff in banking regulation, especially because of the government guarantee of bank deposits. On the one hand, regulators are concerned about bank failures and their effects on the economy, as well as their cost to the insurance fund. On the other hand, banks need to take risks to finance growth. Tradeoffs are required, and a swing in either direction can create both short- and long-term problems.

Indeed, a single regulator with a narrow view of safety and soundness and with no responsibility for the macroeconomic implications of its decisions would inevitably have a long-term bias against risk-taking and innovation. It receives no

plaudits for contributing to economic growth through facilitating prudent risk-taking, but *it is severely criticized for too many bank failures. The incentives are clear*

The Federal Reserve's stabilization objectives cause us to seek to avoid either excessive tightness or ease in our supervisory posture. The former leads inevitably to credit crunches, and the latter to credit policies that contribute, with a lag, to bank losses and failures. This is not to say, as some have advocated, that the Fed itself should be the only regulator. A single regulator Fed would be prone to arbitrary and capricious behavior as would any other single bank regulator. We would thus oppose such an initiative, since as a single regulator we would inevitably drift to increasing day-by-day control of banking institutions who would soon become less innovative and competitive—a severe loss to the nation.

Not only is it important that one of our regulators have macroeconomic responsibility in order to carry out the regulatory function properly, but also our central bank must continue to have hands-on involvement in supervision and regulation in order effectively to carry out its macroeconomic responsibilities. Joint responsibilities make for better supervisory and monetary policy than would result from either a supervisor divorced from economic responsibilities or a macroeconomic policymaker with no involvement in the review of individual bank's operations. Without the hands-on experience of regulation and supervision, and the exposure to the operations of banks and markets provided by such experience, the Federal Reserve's essential knowledge base would atrophy. Its deliberations would become increasingly academic.

and the nation's central bank would soon resemble an ivory tower rather than an institution necessarily involved with the day-to-day activities of our economic and financial system. It is our knowledgeable examiners and supervisors—knowledgeable about banks, financial markets, and the payment systems that connect them—that provide the expertise the Fed needs. And the fact is that we simply could not retain such staff if they were not actively involved in the process, reading reports or joining as junior participants in a handful of examinations would not be sufficient.

Some have argued that most foreign central banks are not involved in bank supervision and regulation. In fact, as described in more detail in the attachment, central banks in all but one G-7 country (Canada), in most cases *de jure* but always *de facto*, are closely involved with the supervision of banks in their countries and internationally. More broadly, the central bank has either total or shared responsibility for bank supervision in three quarters of the nations in the OECD. One example that is frequently used by those that believe that central banks in foreign countries are not involved in supervision is the Bundesbank. The facts are quite the contrary: the Bundesbank has more supervisory staff than the German Federal Banking Supervisory Office, reviews the auditors' reports before the Banking Supervisory Office receives them, and has veto power over certain liquidity and capital regulations of that office. In all industrial countries, either central banks or finance ministries, or both, are involved with supervision because nations have come to understand that bank supervision has economic consequences that are important for stability and economic growth.

Removing the Federal Reserve from supervision and regulation would greatly reduce our ability to forestall financial crises and to manage a crisis once it occurs. In a crisis, the Fed could always flood the market with liquidity through open

market operations and discount window loans. But while rapid liquidity creation is often a necessary response to a crisis, supervision and regulation responsibilities give the Fed insight and the authority to use less blunt and more precisely calibrated techniques to manage such crises and, more importantly, to avoid them. The use of such techniques requires both the clout that comes with supervision and regulation and the understanding of the linkages between supervision and regulation and macroeconomic growth and stability.

The Fed is required to play the key role when systemic breakdown threatens. The attachment to my statement provides some detail about Federal Reserve involvement in financial crises over the last decade. As you review it, I request that you consider certain key questions:

Could the Fed without supervisory responsibilities have successfully managed the Mexican debt crisis of 1982, the 1985 collapse of Ohio and Maryland privately insured thrifts, the stock market crash of 1987, or the Drexel failure of 1990?

Would the banking community have been persuaded to respond as they did in each of these cases by a central bank with much more limited authorities to affect events? Would the Fed have been able to play a role in persuading many of the banks to complete the payments necessary to prevent payments gridlock without supervisory knowledge and authority?

Finally, would a single bank regulator with no macroeconomic stabilization responsibilities have given the proper weights to financial market stability and economic growth? Without market expertise, would such a regulator have recognized early enough many of the problems central to resolution of these crises?

In my judgment, the risk that the answer to all of these questions is "no" is too great to take

There are ways, short of the creation of a single agency, to address the problems in the current regulatory structure and reduce the costs of regulations. The crux of the issue is duplicative examinations of banks. This problem could be eliminated by a regulatory system that maintained two federal regulators, but provided that in general only *one* of those regulators supervised all the depository institutions in any banking organization.

While there are many ways to achieve an improved regulatory structure, one such approach supported by the Federal Reserve Board that could be implemented with a relatively modest series of reforms would contain the following provisions:

- Merge the OCC and the OTS. This organization would become the Federal Banking Commission.
- Remove the FDIC from examining healthy institutions.
- Put all independent national banks, all lead national banks that are part of a holding company, and all thrifts under the purview of the Federal Banking Commission, and put all independent state banks, and all lead state banks in a holding company under the purview of the Federal Reserve.
- Provide that the supervisor of the lead depository in a banking organization also be the supervisor and regulator of all the

depository institutions in the organization regardless of the charter class of those affiliates.

- Finally, treat all U S activities of foreign banks as now, with adjustments where necessary to reflect the changes in the regulatory structure described above

The Board has not yet adopted a position on the supervision and regulation of bank holding companies and their nonbank affiliates. There are two broad options, and a strong case can be made for each

- Under the first option, all holding companies and their nonbank affiliates could remain under the Fed's jurisdiction, continuing to provide uniform rulemaking for competitive equity and a substantial role for the Fed in shaping the financial structure, so useful for stabilization and systemic risk purposes
- Under the second option, the jurisdiction of virtually all holding companies could be split between the Fed and the FBC on the basis of the charter class of the lead bank. However, for systemic risk reasons, jurisdiction over the holding companies and nonbank affiliates of a modest number of banking organizations that meet certain criteria—such as large size and payment and foreign activity—would be retained by the Fed, even if the lead bank of the organization had a national charter organization

Under either option, the number of banking organizations subject to multiple regulators would drop sharply

Whichever holding company option is selected, the general proposal would have the Fed supervise and regulate state nonmembers, with these banks being a significant addition to our existing regulatory load. This expansion of the Fed's supervisory functions rests solely on the notion that in a two agency structure, it is desirable to have supervision and regulation responsibility defined clearly by charter class in order to preserve the dual banking system. The Board makes no case that responsibility for such banks—that account for almost one-quarter of bank assets—is needed for financial stability and monetary policy purposes. However, responsibility over banks of various sizes and locations, as under our existing authorities, is required if the Fed is to perform its functions effectively.

The Board's approach would achieve essentially all of the benefits of one consolidated regulator while incurring virtually none of its risks. It eliminates duplicate supervision of depositories in a single banking organization and greatly reduces overlapping regulation. It maintains the dual banking system and permits any bank to change federal regulator by changing charter, thus ensuring a set of checks and balances on the arbitrariness of a single regulator. It maintains the healthy process of dynamic tension in bank rulemaking. It maintains the practical knowledge and skill, and the influence and authority, of the central bank, so critical for crisis prevention, crisis management, and monetary policy. It maintains the valuable perspective the central bank brings to supervision. In short, the proposal would avoid an inflexible, single regulator, preserve the dual banking system, assure that an economic perspective is brought to supervision and regulation, and maintain a strong central bank.

The Views
of the
Board of Governors of the Federal Reserve System
on the
Consolidation of Bank Supervision and Regulation

March 1994

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INTRODUCTION AND SUMMARY

The Board of Governors of the Federal Reserve System agrees that the Congress should take steps to reduce duplicative bank examinations and overlapping regulation. But it is concerned that the single regulator proposals do so by removing the benefits of the existing system and creating new problems and risks, without addressing the need for fundamental modernization of permissible banking activities. Moreover, the Board notes that most of the excess burden banks now face reflects legislative and regulatory reaction to stresses in the banking system that became evident after the mid-1980s. Most of these burdens would remain or, at best, be only marginally reduced by reforms of the regulatory structure that would leave untouched the supervisory micro-management required by recent legislation.

Nonetheless, the Congress could reduce regulatory burden and improve government efficiency by addressing regulatory overlap and duplicative examinations. In doing so, the Board urges the Congress to balance the benefits of regulatory reform with the need to preserve both the special and unique nature of the U.S. banking system and the ability of the central bank to perform effectively its stabilization functions.

The single regulator proposals seek to resolve the problems in the regulatory structure by creating a single federal bank and thrift regulator that would take over the current regulatory roles of the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and the Office of Thrift Supervision (OTS), and most of those of the Federal Reserve (FR). While such an approach would deal with duplication, inconsistency, and overlap, it would create problems and run risks that are far more serious. In short, the Board believes these proposals are poor public

policy because they are adverse to three principles which the Board believes are basic to any bank regulatory structure:

1. To avoid the risks associated with the undue concentration of regulatory power, there should be at least two federal regulators, one of which should have macroeconomic responsibilities. Any single regulator would be prone to arbitrary actions because it would not have the checks and balances provided by two or more agencies. A single regulator would thus be more likely to make sudden and, perhaps, dramatic changes in policy that would add uncertainties and instability to the banking system. A single regulator without macroeconomic responsibilities would also have a tendency to inhibit prudent risk taking by banks, thus limiting economic growth.
2. The dual banking system—in which banks can be chartered by either the states or the federal government—should be preserved. It has served this nation well. Without a choice of federal regulator, such a system cannot survive. Choice of both charter and federal regulator facilitates the diversity of approach that has made the U.S. banking system the most innovative in the world.
3. As the nation's central bank, the Federal Reserve System should continue to have direct hands-on involvement in supervision and regulation of a broad cross-section of banking organizations in order to carry out its core central bank responsibilities to insure the stability of the financial system, manage the payment system, act as a lender of last resort, and formulate and implement a sound monetary policy. Without such involvement, the central bank would

not be able to maintain either its knowledge of markets and banking or the influence of a regulator so necessary for both macroeconomic policy development and crisis management. It would pose unnecessary risks to remove the Federal Reserve from supervision and regulation at a time when the continuing evolution of new financial instruments, increasing globalization of financial markets, the implementation of more active financial management strategies, and the speed of electronic technology may make systemic risk containment more difficult.

The Board believes that it is possible to achieve virtually all of the public policy benefits of the single regulator proposals without violating any of these principles.

The critical impairment of the Federal Reserve's hands-on authority over, and involvement in, the activities and operations of banks, as called for by all of the current proposals, would significantly undermine the effectiveness of the Federal Reserve in carrying out its public policy responsibilities. The Federal Reserve must know in a practical detailed way how the banking system works, where the vulnerabilities lie, and have the ability and authority to influence banking organizations' actions. Reports from another agency—or Fed representation on another agency's board—would not provide such experience. Access to written supervisory reports at another agency might be useful for assessing a specific problem in a specific bank. It would add little to the Fed's capabilities in addressing financial crises. As Gerald Corrigan, the former President of the Federal Reserve Bank of New York, recently noted, the hands-on intimate knowledge from supervisory responsibilities “. . . cannot be taken out of the closet only when needed and it certainly cannot be realized by reading another agency's exam report.”

A single regulator without the responsibility for the economic consequences of its actions would inevitably result in a regulatory stance with a long-term bias against risk taking—and, hence, economic growth—and with likely shorter-run policy shifts between excess laxity and restraint. Any single regulator, even if it were the Federal Reserve, would also have a bias toward arbitrary actions and would eliminate the beneficial diversity and pluralism of our dual banking system. There is little reason to believe that such a regulator would be any more efficient in an economic or managerial sense, and it would certainly be less flexible than our current structure with its checks and balances. Indeed, most of the prospective regulatory cost savings that are likely to result initially from the creation of a single bank regulator would also accrue to a regulatory system which included the Federal Reserve. Moreover, such cost savings, if there were only one regulator, would likely be dissipated over time as the bureaucratic inefficiencies of a monopoly regulator took hold. In addition, a single regulator is likely to impose costs on the economy from slower economic growth, more variable supervisory policy, and reduced effectiveness of the macroeconomic stabilization policies of the Federal Reserve, all of which could easily swamp any dollar cost savings to the government from combining the regulatory agencies into a single agency.

Essentially all of the benefits of a single regulator can be obtained with less disruption and risk while still retaining the formidable benefits of the present system. Elimination of duplicate examinations and adoption of a single supervisor for virtually all banking and thrift organizations can be accomplished with two banking agencies, each of which would be given clearly defined supervisory responsibilities. Such an approach would preserve the dual banking system by permitting real choice of

federal regulators, and maintain the ability of our central bank to fulfill its responsibilities.

CENTRAL BANKING AND SUPERVISION AND REGULATION

Since its inception the Federal Reserve has been at the nexus of monetary policy, the payment system, and bank supervision and regulation. Indeed, the importance of supervision as a fundamental responsibility of the central bank was emphasized in the 1913 preamble of the Federal Reserve Act, which called on the Federal Reserve "... to establish a more effective supervision of banking in the United States." Over the years, it has become clear that the Fed is a better supervisor because it has economic stabilization responsibilities. Such responsibilities require it to evaluate the economic implications of its and other agencies' supervisory stance, in effect recognizing that safety and soundness goals include concerns about the stability and growth of the economy. These joint responsibilities, the Board believes, make for better supervisory and monetary policy than would result from either a supervisor divorced from economic responsibilities or a macroeconomic policymaker with no practical experience in the review of individual bank's operations.

To carry out its responsibilities, the Fed has been required over the decades to build up extensive, detailed knowledge of the intricacies of the U.S., and indeed the world, financial system. That expertise is the result of dealing constantly, and in detail, with changing financial markets and institutions and their relationships with each other and with the economy, and from exercising supervisory responsibilities. It comes as well from ongoing interactions with central banks and financial institutions abroad.

Federal Reserve supervisory and regulatory activities have been an integral and indispensable aspect of this process. Continuing interactions with banking organizations, both large and small, are one of the key ways that the Fed has acquired detailed insights into how our system functions. This view is not simply one held by the current Board. At least since the Roosevelt Administration, Federal Reserve Boards and their chairmen have felt the necessity for the central bank to be involved actively in the formulation and execution of supervisory policy, and have made that point to the large number of private and public groups and commissions that have reviewed the issue.

To meet the public policy objectives given to it, the Federal Reserve must maintain a staff of skilled supervisors. It would not be able to attract and maintain such a staff with the limited functions outlined in the single regulator proposals. Even with a knowledgeable staff, it would be virtually impossible to get an operationally effective sense for developments by reading reports or having discussions with the staff of a new single regulator. The Fed would not be in a position to evaluate requests for discount window loans to problem banks and thrifts because it would not have either timely knowledge of the financial condition of these banks or highly competent supervisors to evaluate the position of another agency's examiners. The authority to examine for discount window purposes would be meaningless because it would come into play much too late if it were exercised only at the time of the loan request. To be meaningful, such authority would require full periodic examination and review of a significant number of banks so that the Fed would be able to know the condition of the banking system, as well as the condition of the institution to which it is lending, and have the on-going supervisory expertise to evaluate the new agency's view of the potential borrowing entity. Indeed, Congress recognized in FDICIA the need for

independent Federal Reserve evaluation of depositories to which the Fed extends credit. The sample of banks subject to Federal Reserve examination in the current proposals falls far short of our view of what is required.

Similarly, examination for payment system purposes (as is advocated in some reform proposals) cannot simply be a review of controls, procedures, and systems, as important as that is. What is most relevant is the risk exposure that domestic and foreign participants in the dollar clearing and payment systems create on fedwire to the Fed (and hence to the public) or to banks on private systems. The day-to-day evaluation of these risk exposures requires prudential examination and supervision authority of a general nature or a cadre of skilled examiners that can evaluate another agency's exam. Anything less may give the Fed apparent responsibility without the necessary expertise or authority.

Eliminating the U.S. central bank from adequate hands-on supervision and regulation would remove the accumulated human capital built up over 80 years of experience with a wide spectrum of banking organizations. Such capital cannot—without linkage to economic policymaking—be duplicated in the short run or transplanted. Moreover, without the hands-on experience of regulation and supervision, the Federal Reserve's essential knowledge base would atrophy. Consequently, its deliberations would become increasingly academic and the nation's central bank would soon resemble an ivory tower rather than an institution necessarily involved with the day-to-day activities of our economic and financial system. There is regrettably a view in some circles that monetary policy can be conducted by a central bank with no practical knowledge of banking or responsibility for bank operations. Indeed, some observers argue that monetary policy would be improved if the Federal Reserve's attention were not diverted to supervisory and regulatory issues. The Board,

recognizing that banks and the financial system are the interface between monetary policy and the economy, disagrees strongly with this point of view. It believes that such an academic approach would be likely to lead to seriously deficient policymaking by reducing the Fed's practical understanding of markets, credit conditions, and institutions.

Removing the Federal Reserve from supervision and regulation would greatly reduce its ability to forestall financial crises and to manage a crisis once it occurs. In a crisis, the Fed, to be sure, could always flood the market with liquidity through open market operations and discount window loans; at times it has stood ready to do so, and it does not need supervision and regulation responsibilities to exercise that power. But while often a necessary response to a crisis, such an approach may be costly, destabilizing, and distortive to economic incentives, as well as being insufficient. Supervision and regulation responsibilities give the Fed insight and the authority to use less blunt and more precisely calibrated techniques to manage such crises and, more importantly, to avoid them. The use of such techniques requires both the clout that comes with supervision and regulation *and* the understanding of the linkages among supervision and regulation, prudential standards, risk taking, relationships among banks and other financial market participants, and macrostability.

Crisis Management

Our financial system—market oriented and characterized by innovation and rapid change—imparts significant benefits to our economy. But one of the consequences of such a dynamic system is that it is subject to episodes of stress. Recent examples include a series of international debt crises, a major stock market crash, the collapse of the most important player in the junk bond market, the virtual

collapse of the S&L industry, and extensive losses at many banking institutions. In such situations the Federal Reserve provides liquidity, if necessary, and monitors continuously the condition of depository institutions to contain the secondary consequences of the problem. The objectives of the central bank in crisis management are to contain financial losses and prevent a contagious loss of confidence so that difficulties at one institution do not spread more widely to others. The focus of its concern is *not* to avoid the failure of entities that have made poor decisions or have had bad luck, but rather to see that such failures—or threats of failures—do not have broad and serious impacts on financial markets and the national, and indeed the global, economy.

The types of financial crises that arise from time to time are rarely predictable and almost always different. The Fed's ability to respond expeditiously to any particular incident depends on the experience and expertise that it has accumulated over the years about the specifics of our system and its authority to act on that knowledge. In responding to a crisis or heading off potential crises, the Federal Reserve continuously relates its supervisor-based knowledge of how individual banks work with its understanding of the financial system and the economy as a whole.

This does not necessitate comprehensive information on each individual banking institution, but it does require that the Fed know in depth how institutions of various sizes and other characteristics are likely to behave and what resources are available to them in the event of severe financial stress. It currently gains this insight by having a broad sample of banks subject to its supervision and through its authority over bank holding companies.

The Federal Reserve employs its accumulated experience and expertise in large measure to work with other regulators here and abroad and with private parties to build strong institutional structures resilient to the inevitable strains that hit financial systems. For example, in consultation with the other agencies, the Fed uses its comprehensive economic knowledge to ensure that the economic consequences of proposed rules are considered. In addition, the Fed's leadership with G-10 central banks has led to higher and more consistent capital standards and vastly improved criteria for payment system management.

The Fed plays the key role when systemic breakdown threatens. Such episodes invariably create fear and uncertainty in the financial markets. Fear of counterparty risk escalates, and the threat of paralysis in financial markets and the breakdown of payment and credit arrangements that underpin them become all too real. It is important that a regulatory authority fully familiar with the dynamic international economic and financial forces in play be available to counsel and urge rational responses—and, as a last resort, provide liquidity. If regulatory authority is vested in a single agency and little in the central bank, our nation's ability to forestall or to respond efficiently and effectively to a crisis would surely be impaired.

Perhaps a few examples of Federal Reserve involvement in past crisis management would help illustrate and clarify these points.

In early 1990, the parent of the leading dealer in junk bonds, Drexel Burnham, failed, with potential significant impacts on financial markets. The Fed's concern was not for the failure of a particular securities firm, but rather the impact that failure might have on other financial institutions and on the functioning of capital markets essential to economic growth and job creation.

From the central bank's perspective, the greatest threat was potential gridlock in the system of paying for, and delivering, securities. Orderly liquidation of Drexel's substantial holdings, especially of mortgage-backed securities, was nearly stymied by the fears of market participants who became exceedingly reluctant to deliver securities or make payments to Drexel or finance its securities position. This caution, while entirely understandable, could have brought the liquidation process to a standstill. Had this occurred, capital markets would have been disrupted and the financial system would have become more vulnerable in the future to the slightest whiff of problems at any major market player.

The key to preventing gridlock was the cooperation of clearing banks, through whose books most of the payments and securities flowed, and who are the back-up source of credit to the securities markets. Because of its ongoing supervisory relationships and knowledge of the payment system's infrastructure, the Federal Reserve Bank of New York had the access, contacts, and in-depth knowledge of these institutions that enabled it to address this complex problem. The Fed understood the potential problems of Drexel's counterparties and clearing banks and had established close working relationships with key personnel. The Fed was able to use its knowledge and relationships to work with the banks and securities firms to identify developing problems, and fashion procedures that enabled securities to be transferred and credit to be extended to facilitate an orderly winding down of Drexel without adverse effects on innocent bystanders or adding to the overall fragility of the financial markets.

Another example of Federal Reserve involvement in crisis management is the record stock market break of October 19, 1987, a drop paralleled by similar price declines in all major stock markets of the world. These events represented a serious threat to the stability of the global financial system. Formulating and carrying out

actions to maintain the integrity of the banking system, and thus limit the damage inflicted by the drop in stock prices, required a variety of skills and powers. Particularly crucial were the Federal Reserve's knowledge of financial markets, its contacts with foreign central banks and with U.S. securities and commodities regulators, and its experience with supervising and regulating banking institutions and the payment system, all working hand-in-hand with its monetary policy.

Perhaps most visibly, early on October 20, the Federal Reserve issued a statement indicating that it stood ready to provide liquidity to the economy and financial markets. In support of that policy, the Federal Reserve conspicuously and aggressively added reserves to the banking system on a daily basis through the end of the month. These actions were taken as a central bank and could have been taken without supervisory and regulatory authority.

However, the Fed's actions went far beyond the provision of reserves. The System took a number of other steps that drew on its expertise in the operation of markets and the payment system and in assessing the financial strength of important participants. These included increased surveillance of the U.S. government securities market, and more frequent contact with participants and regulators at the Treasury and elsewhere. But a focal point of these actions was the banking system. Drawing on its supervisory experience, the Fed immediately assessed the funding and risk characteristics of major banking organizations to help identify any emerging problems. Federal Reserve examiners on-site in major banking institutions obtained information rapidly on potentially significant lending losses and emerging liquidity pressures. Examiners were also sent into firms directly affected by an options dealer that had suffered large losses. To detect the development of any bank runs, the Federal Reserve monitored currency shipments to all depository institutions. Frequent contact

with counterparts in other major financial centers kept both the Fed and foreign authorities informed about developments in markets and at international banks and other financial firms.

The credit relationships between banks and securities firms received particular attention. To obtain information about securities credit, the Federal Reserve, through its examiners, was in frequent contact with both banks and securities firms regarding the liquidity and funding of broker/dealers. Securities dealers' need for credit was expected to rise, but with substantial losses likely from the large drop in stock prices both firms and their customers would have less collateral to secure borrowing. In its discussions, the Fed recognized that banks needed to make sound credit judgments in the circumstances, but it also stressed the systemic problems that would develop if the credit needs of solvent, but illiquid, firms were not met.

Problems in the futures and options markets, in particular, illustrated the relationship between the banks and the securities firms, as concern grew that gridlock was being approached in the settlement systems of the Chicago exchanges after large margin calls on October 19 and 20. At the time, margin calls were collected through four settlement banks in Chicago. Clearinghouse members were unable to fund their accounts at the settlement banks in time to meet the margin calls. Owing to the unusual size of the margin calls to certain large clearing members, the settlement banks were unwilling to confirm those members' payments to the clearinghouse until they could verify that funds had been received to cover the payments from the New York banks at which the relevant clearing firms maintained their principal banking and credit relationships. At the same time, the New York bankers were already concerned about rumors regarding the creditworthiness of their customers and had little time to fully understand the exposures that the securities firms had across other lines of activity

such as foreign exchange, risk arbitrage, and block trading. Telephone calls placed by officials of the Federal Reserve Bank of New York to senior management of the major New York City banks helped to assure a continuing supply of credit to the clearinghouse members, which enabled those members to make the necessary margin payments.

While it is difficult to determine how the situation would have evolved in the absence of these actions, it seems reasonable that the risk of even more disruptive developments would have increased. The Federal Reserve's ability to reach judgments about what actions were necessary depended critically on both its supervisory and its economic knowledge of financial markets, banking institutions, and payment systems and the Fed's credibility with market participants accumulated through many years of operating in the markets and supervising banks.

The collapse of state chartered, privately insured thrift systems in the states of Ohio and Maryland in the mid-1980s were other incidents in which the Federal Reserve drew heavily on its supervisory resources and experience in carrying out its crisis management responsibilities. When the largest of 71 privately insured institutions in Ohio was reported to have suffered heavy losses due to fraudulent securities transactions, depositor runs were triggered at the affected institution and confidence in the viability of the insurance fund was undermined. These developments led to runs at many other institutions insured by the fund. Within two weeks, the Governor of Ohio had closed all of these institutions, and a law was then enacted that permitted their reopening only if they were able to obtain federal deposit insurance.

Maryland's problems followed within months, as the collapse of the Ohio system raised concerns about the ability of the private insurer of 101 state-chartered savings institutions in Maryland to cover losses if they were to arise. Those concerns

received confirmation when the two largest of these institutions were found to be insolvent due to fraud and other abusive practices. Once again, depositor runs at the insolvent institutions and at other institutions insured by the fund forced the closing of all, with their reopening conditioned on their being found eligible to access the Federal Reserve's discount window. Additionally, the state promptly enacted legislation that required these institutions to obtain federal insurance, be merged with an insured institution, or to be liquidated.

Responding to requests for assistance from the governors of each of these states, the Federal Reserve assembled examiners from throughout the System—with a sizable contingent of examiners from the OCC and FDIC joining in the case of Maryland—to help resolve the crises. Under the Federal Reserve's general direction, examiners entered virtually all affected institutions in both states to evaluate assets that might serve as collateral for discount window loans, to monitor deposit outflows and currency drains from the institutions, and to assess their financial condition. Simultaneously, the Federal Reserve took steps to ensure that currency was strategically placed in selected areas of each state to permit quick delivery to institutions experiencing heavy cash withdrawals. Because of these efforts, the System was able to extend discount window loans expeditiously when institutions encountered serious liquidity problems, to process checks, ACH payments and the wire transfers of the institutions prudently and effectively, and to meet all requests for currency.

The Federal Reserve also served as advisor to state authorities and a facilitator of discussions with major depositories that sought to find solutions to these problem situations. In short, the Federal Reserve's broad mandate for economic stability, coupled with its operational experience in markets and supervision, played an instrumental role in resolving each crisis in as orderly a manner as possible, and

effectively contained the potential for spillover effects on federally insured depositories and other financial institutions.

A final example is the Mexican debt crisis of 1982, which marked the beginning of a generalized debt problem in the less developed countries in the 1980s that threatened the world's financial system and economic growth. The Federal Reserve recognized the potential for problems because of both its expertise and its intimate role in banking supervision. Bank and bank holding company supervisory reports and the judgment of Federal Reserve examiners provided vital information regarding the fact that exposures to countries that were susceptible to payments difficulties were well in excess of the capital of many banks. Not just the largest U.S. banks, but also many smaller banks were significantly involved; in total, more than 150 U.S. banks had exposure to Mexico. When the Latin American debt crisis broke publicly in 1982 with a potential default by Mexico on more than \$50 billion in claims held by international commercial banks, the Fed was positioned to act quickly to organize the international provision of liquidity support while a more permanent solution was worked out. The Fed could respond quickly and comprehensively because of the practical knowledge gained from hands-on examination of banks, its deep involvement in the country-risk examination process, and its extensive contacts with foreign central banks.

After the initial phase of the debt crisis, tension developed between two seemingly conflicting considerations. On the one hand, the financial strength of the banking system needed to be protected and restored in light of the potential losses by banks on their exposures to developing countries. On the other hand, if at least conditional access by developing countries to funding from hundreds of U.S. and foreign banks were not maintained, those countries would not have been able to work

out their problems in an orderly fashion. The collapse of those countries' ability to renegotiate their debts would have increased the likelihood of widespread bank failures in the United States and around the world, threatened the stability of the global financial and trading system, and worsened the already tenuous growth prospects of the industrial countries.

The Federal Reserve, by virtue of its combined responsibilities for oversight of the financial and the dollar payment systems on the one hand, and maintenance of macroeconomic stability on the other, was in a unique position to recognize these complex interactions and incorporate these considerations effectively in its supervisory actions. Through its active involvement in the daily supervisory process of a broad cross-section of U.S. banks, the Fed had the perspective and the knowledge to ensure that general supervisory policies, which often were initiated to deal with other concerns, did not impair overall efforts to resolve the LDC debt problem. Working with the Treasury and foreign central banks, the Federal Reserve understood that over an appropriate time horizon considerations of financial prudence and macroeconomic stability were not, in fact, conflicting but rather required the same patient responses. Indeed, the Fed took the lead in coordinating a response by the U.S. bank supervisory agencies that avoided overaction to the Mexican crisis. In particular, U.S. commercial banks were not penalized for their participation in a constructive solution to the systemic threat posed by that crisis.

This last experience illustrates a point anticipated earlier. An agency with the sole or primary goal of prudential supervision and regulation, and without responsibility for the economic consequences of its own actions, will of necessity tend to focus almost entirely on a narrow view of safety and soundness. It will be severely criticized by the Congress and others if a bank fails on its watch; it will not receive credit

for avoiding other failures in unusual circumstances by being flexible. It will not have the market experts—the economists and other specialists who spend their careers understanding evolving institutions and instruments and how they react during adversity and crisis. It is the combining of the Fed's supervisory knowledge with that of these other experts *and* its broad macroeconomic responsibilities that facilitates—indeed, requires—the balancing of the prudential supervision of banks against the broader economic implications that surround a crisis.

Monetary Policy

While crises arise only sporadically, the Federal Reserve is involved in monetary policy on an ongoing basis. In this area, too, the Fed's role in supervision and regulation provides an important perspective to the policy process. Monetary policy works through financial markets to affect the economy, and depository institutions remain a key element in those markets. Indeed, banks and thrifts are more important in this regard than might be suggested by a simple arithmetic calculation of their share of total credit flows. While securities markets of different types handle the lion's share of credit flows these days, banks are the backup source of liquidity to many of the securities firms and large borrowers participating in these markets. Moreover, banks at all times are the most important source of credit to most small- and intermediate-sized firms that do not have ready access to securities markets. These firms are the catalyst for U.S. economic growth and the prime source of new employment opportunities for our citizens. The Federal Reserve must make its monetary policy with a view to how banks are responding to the economic environment.

Factors affecting banks, quite apart from monetary policy, can have major implications for their behavior and for the economy. Important among these factors are

elements of the supervision and regulation of depositories. As Chairman Volcker noted in his testimony on the 1985 Bush Commission proposals for reform:

Policies such as those affecting capital and liquidity standards, the "toughness" of examinations, loan-loss provisioning, and information disclosure can have great significance for the effectiveness of monetary policy as well as for the stability of the entire financial system. Conflicts will inevitably arise in these areas as they are approached from different perspectives. Those conflicts need to be resolved, and I believe the perspective of the central bank is one essential part of a satisfactory resolution.

An example of such a central bank perspective is the development of the rules the banking agencies impose on banks to implement federal legislation and/or to further prudential supervisory goals. In the interagency development of such rules, the Fed brings to the table its unique concerns for the impact of the proposed rules on credit availability and the resultant consequences for the economy. Recent examples include the Fed's role in modifying the real estate appraisal and minimum loan-to-value regulations and the implementing rules of the non-capital "tripwires" in FDICIA. The Fed would not be able to exert sufficient influence to assure that economic consequences were properly considered if it had just a minority vote on a commission. It is the healthy tension of independent agencies coordinating their rules which permits the Fed to bring the economic implications of rulemaking into the process.

The crucial nature of economic considerations in the development of supervisory policy was illustrated most recently in the credit crunch. Banks realizing losses on commercial real estate and other credits were pulling back from all types of lending; their impulse to do so interacted in complex ways with the policies of regulators and supervisors responding to the situation. Certainly, a major factor in the Fed's decision to ease interest rates from 1989 on was its increasing awareness, importantly

gained through the examination process, that banks were rapidly tightening their lending terms and standards. The Federal Reserve was never able to offset fully the lending trauma that led to the "credit crunch" of the early 1990s, but it clearly contained its deleterious effects in a significant way. Without the Fed's hands-on bank supervisory activities, it might not have been aware of the seriousness of this problem until later, with doubtless unnecessary strain on the economy.

The "credit crunch" experience also illustrates how Federal Reserve involvement in supervision and regulation can improve those functions as well. Its own experience in the banking system and the knowledge of its examiners were key elements in enabling the Fed to analyze this phenomenon and work closely with other agencies to adjust supervisory policies to alleviate the crunch while preserving safety and soundness. A central bank brings a unique and invaluable perspective to regulation; it is far better situated than a narrowly focused regulatory agency to see how bank regulation and supervision relate to the strength of the payment system, the stability of financial markets, and the health of the economy.

Payment System

The Administration's proposal for a single regulator recognizes the important role that the Federal Reserve plays in the payment mechanism. As noted earlier, however, the authority proposed for the Federal Reserve would be insufficient for the Fed to ensure a safe and sound payment system. To do so requires an ability to evaluate the fundamental strength of the banks that lie at the heart of the payment system and to retain personnel with the necessary broad perspective.

To understand the importance of the payment mechanism, one must realize that the dollar interbank payment system is the nation's backbone for clearing

and settling transactions in the fed funds, government securities, and corporate securities markets, as well as transactions generated by nonfinancial businesses and consumers. In addition, the dollar payment system is the linchpin of the international system of payments that relies on the dollar as the major international currency for trade and finance. Consequently, the foreign exchange and related markets rely heavily on settlements involving the U.S. dollar payment system. The key large dollar electronic payment systems, Fedwire and CHIPS, transfer nearly \$2 trillion per day and thus these systems, as well as specialized depositories and clearinghouses for securities and other financial instruments, are crucial to the integrity and stability of our financial markets and our economy. In all these payment and settlement systems, commercial banks play a central role, both as participants and as providers of credit to nonbank participants. Day in and day out, the settlement of payment obligations and securities trades requires significant amounts of bank credit.

Moreover, in periods of stress, such credit demands surge and, if unmet, could produce gridlock in payment and settlement systems and bring a halt to activity in financial markets. As indicated in the 1990 Drexel failure, the 1987 stock market crash, and the 1982 Mexican debt crisis, ensuring the continued operation of the payment system often requires broad and complex knowledge of banking and markets, as well as detailed knowledge and authority with respect to the payments and settlement arrangements and their linkages to banking operations. This type of understanding and authority—as well as knowledge about the behavior of key participants—cannot be created on an *ad hoc* basis. It requires broad and sustained involvement in both the payment infrastructure and the operation of the banking system.

Foreign Experience

Central banks in all but one G-7 country, in most cases *de jure* but always *de facto*, are closely involved with the supervision of banks in their countries and internationally. More broadly, the central bank has either total or shared responsibility for bank supervision in three quarters of the nations in the OECD. In all industrial countries, either central banks or Finance Ministries, or both, are involved with supervision because nations have come to understand that bank supervision has economic consequences that are important for stability and economic growth. Of course, the specifics of each central bank's role vary from country to country, depending importantly on cultural and historical features, the institutional structure, and the degree of concentration of the financial system.

For example, bank supervision in London and Tokyo—the major international financial centers, along with New York—is quite different. The Bank of England, after a long history in which it supervised banks informally, is now the sole statutory supervisor of all institutions engaged in banking activities in the United Kingdom. The Bank's mode of supervision, with less reliance than in some other countries on on-site examinations, reflects the highly concentrated nature of the British banking system. The five largest banks account for nearly two-thirds of the sterling assets of the domestic offices of all British banks, far greater concentration than exists in the United States. In Japan both the Ministry of Finance and the Bank of Japan conduct regular on-site examinations of banks (in alternate years) and, more generally, share responsibilities for bank monitoring, analysis, and supervision. Whereas the Ministry's role is statutory, the Bank's role is contractual and is based on an individual agreement with each bank that uses its services. Interestingly, the Bank of Japan employs more bank examiners than the Ministry of Finance.

Germany provides still another model. The Federal Banking Supervisory Office (FBSO) is the primary banking supervisory body, but it exercises its authority in close coordination with the Bundesbank. Both the FBSO and the Bundesbank are authorized to conduct on-site examinations of banks, although both rely heavily in practice on reports of external auditors. These reports are submitted to the appropriate branch of the Bundesbank (or Landeszentralbank, analogous to a Federal Reserve Bank), which reviews them, pursues any follow-up issues with either the bank or its auditors, and prepares summaries. (As in Japan, the central bank in Germany employs more supervisors than the supervisory agency.) This information is then given to the Bundesbank in Frankfurt, which does a further review and, in turn, provides the reports and summaries to the FBSO. In addition, the Bundesbank has veto power over certain liquidity and capital regulations of the FBSO. Thus, as in the United Kingdom, in Germany, where the banking system is highly concentrated (the largest three German banks account for nearly 40 percent of total bank assets) and where close contact with only the largest banks might seem to be sufficient for many purposes, the central bank in fact is substantively involved with the entire banking system.

None of these models of supervisory structure can be applied readily to the United States, where there is a dual banking system (with both Federal and state authority) with over 11,000 commercial banks in some 8,500 separate organizations, and with banking assets distributed across a vast country. The large number of small banks is unique to the United States and has characterized our nation almost from its founding. The emphasis of small banks on community lending—especially to small businesses that have been the engine of growth in the United States—has become embedded in our culture. It has been an important factor in our development as a nation. The associated emphasis on innovation and diversity that accompanies such a

large number of banks has contributed to an economy that has given the nation the highest standard of living and the most diverse, innovative, competitive and among the best capitalized banking system in the world. The diversity in banking is reflected in, and supported by, the dual banking system and the decentralized regulatory structure that encourages it to flourish.

But whatever the national model, it is clear that central banks are importantly involved in the hands-on supervision of their own banks at home and abroad and also of the operations of foreign banks in their countries. This involvement derives directly from the fact that, because central banks are the ultimate source of liquidity, central banks are inevitably responsible for solving or containing systemic threats. Thus, what is at stake in the current debate is how the U.S. central bank in the future will be able effectively and efficiently to do its job.

A SINGLE BANK REGULATOR

In our economic system, banks necessarily must take credit risks to finance their customers. Such risk-taking is a critical ingredient for economic growth, but creates the necessity to balance regulation to limit deposit insurance exposure with the economic function of banks. Tradeoffs are required and a zero bank failure rate implies that banks are not performing their proper role. We have recently seen how banks' reduction in their risk appetite as a result of FDICIA, new regulations, weakened capital, and large loan write-offs, contributed to a credit crunch and slower economic growth. Tradeoffs are tricky and a swing in either direction can create both short- and long-term problems.

In balancing such tradeoffs, consider the position of a single supervisory agency required by law to promote a narrow view of bank safety and soundness

without any responsibility for the macroeconomic implications of its decisions. The examination and regulation of banks is an inexact science and open to quite a wide range of outcomes. But, significantly, examiners will be severely criticized if they have responsibility for a bank that subsequently fails, while receiving no applause for the high profits of banks under their purview. Such incentives and missions will inexorably lead to a bias against bank risk taking. As a practical matter, instructions to examiners are not easily drawn. It is easy to write a rule to avoid all risk, but it is difficult to instruct an examiner to encourage "some" risk.

The Fed knows that too extreme a supervisory posture can lead to a credit crunch, with attendant growth constraints. In the early 1990s it played a critical role in recognizing early what was occurring in the banking system and persuading the other agencies to modify their examination standards. But the Fed also knows the future cost of lax examination standards and avoided some of the examination policies of the early 1980s that contributed to the bank failures and deposit insurance fund losses of the late 1980s and early 1990s. Indeed, the Federal Reserve Board notes with some pride that a 1991 *Staff Report* of the House Banking Committee found that from 1986 through mid-1991 state member banks had paid more insurance premiums than the gross losses to the fund from failures of state member banks, and concluded that banks supervised by the other agencies were "... less effectively supervised than the FRB supervised banks." The report added that, "... the FRB demonstrated the best supervisory performance by a substantial margin" in the Southwest, where most losses occurred.

This record suggests another potential problem of a single regulator with a narrow focus on safety and soundness. As noted above, such an agency has a long-term bias towards excessively tight supervision. But, it also would be likely to go

through phases that shift too far in the other direction. This could occur either in response to the economic effects of its tight posture, a kind of oversteering, or in political response to the natural desire of the regulated to operate in the most unfettered way possible. Such pressures, as history suggests, are difficult to resist, especially by an agency in which the decisionmakers are appointed with some frequency. The Federal Reserve's successful record cited above reflects its far more consistent supervisory policy, regardless of fashions, fads, and cyclical developments.

A consolidated single regulator would deprive our present regulatory structure of what the Board considers to be an invaluable restraint on any one regulator conducting an inflexible, excessively rigid policy. The present structure provides banks with a method of shifting their regulator, an effective test that provides a limit on the arbitrary position or excessively rigid posture of any one regulator. Clearly, the pressure of a potential loss of institutions has inhibited excessive regulation and acted as a countervailing force to the bias of a regulatory agency to overregulate.

The dual banking system and multiple federal regulators have facilitated diversity, inventiveness, and flexibility in our banking system, so important to a market economy subject to rapid change and challenge. The dual banking system has also provided a safety valve for inflexible federal positions. In an understandable response to some excesses at the state level, especially for thrifts, the Congress in FDICIA called for restrictions on the ability of the states to provide expanded bank and thrift activities. But a single federal regulator would—especially with the FDICIA provision—effectively end the dual banking system: it would become an empty shell if a state-chartered entity had no choice of federal regulator or different asset powers. The dual banking system cannot survive consolidation at the federal level. The Federal Reserve Board believes that would be a serious loss.

To be sure, the existence of more than one regulator raises the concern that, on occasion, banks will shop for benign regulators, leading to the “competition in laxity” that Chairman Burns warned about in the 1970s. This is a legitimate concern. However, the Federal Reserve’s record as the most consistent regulator—one that focuses on the long-run economic consequences of its actions—is inconsistent with an agency that would promote and encourage competition in laxity; quite the contrary. In addition, any effort by either agency to weaken its long-run supervisory stance would be mitigated by statutory floors on the level of supervision and regulation. Moreover, because depository institutions perceived as lacking safety and soundness have elevated funding costs, tough, but reasonable, supervision is often considered an asset by banks and thrifts.

In addition to the option a bank now has to change its regulator by changing charter or Federal Reserve membership status, another equally important check and balance would be lost if the current regulatory structure were replaced by a single regulator. Through the Federal Financial Institutions Examinations Council (FFIEC), the agencies endeavor to adopt consistent rules and regulations. That process of sharing points of view and expertise has demonstrably improved the final product, tending to eliminate the extreme and unworkable positions, and assuring that the Fed’s concerns about systemic and economic problems are considered. A consolidated single regulator would not benefit from this exercise and might well tend to be less receptive to modifications of a preliminary, and even more so, of an adopted final rule. In short, there is a kind of a built-in arbitrariness that comes with a single regulator.

Some have suggested that other parts of the financial system have single regulators. The Board would note, however, that neither the Securities and Exchange

Commission (SEC) nor the Commodities Futures Trading Commission (CFTC) are monolithic regulators of their industries. Both oversee numerous self-regulatory organizations, including the organized exchanges, the National Association of Securities Dealers, and the National Futures Association, that, in fact, do all of the supervision and much of the regulation under SEC and CFTC oversight. Indeed, since the cash and derivatives markets are parts of one integrated financial market, that market can be thought of as subject to two federal regulators—the SEC and the CFTC. In fact, most of the position-taking firms in this market are both registered broker/dealers and futures commission merchants, and thus subject to the rules and regulations of both federal regulators.

AN ALTERNATIVE PROPOSAL

If a single regulator is preferred, the best candidate would be the Federal Reserve. It is independent. It has experience and expertise. It currently has a broader regulatory and supervisory scope than any of the other banking agencies. It deals with large banks and small, with bank holding companies, foreign banks, foreign operations of U.S. banks, other central banks, securities dealers, and with financial markets broadly. The Congress also has assigned it responsibilities for a broad array of consumer protection regulations. In short, the Fed has responsibilities for, and experience and expertise in, a wide range of financial institutions and markets. But, the Board would strongly oppose the Federal Reserve becoming a single regulator, just as it opposes any other agent of government in that role. While a monopoly bank regulatory agency could enforce uniformity in bank examination and regulation, it would do so at great cost to the broader efficiency and flexibility of our financial system, and run the risk of unnecessarily creating an arbitrary and capricious federal bureaucracy. Banking supervision and regulation can benefit from the variety of viewpoints and

checks and balances of a system of more than one federal regulatory authority—a structure that preserves real meaning for the dual banking system. A system in which banks have choices and in which regulations result from the give and take involving more than one agency stands a better chance of avoiding the extremes of supervision and of finding a well-balanced consistent policy over time.

There are other ways, short of the creation of a single agency, to address the problems in the current system. The crux of the issue is duplicative examinations of banks. This problem could be eliminated by a regulatory system that maintained two federal regulators, but provided that in general only one of those regulators supervised all of the depository entities in any banking organization. Undoubtedly there are several approaches that preserve choice and retain a major role for the central bank. One approach that the Board supports has three parts:

- Reduction of the number of agencies with supervisory and regulatory power from four to two—a Federal Banking Commission and the Federal Reserve.
- Elimination of duplicative examinations.
- Establishment of one federal supervisor for all the depository institutions in any single banking organization, regardless of the charter class of the individual entities.

Under this approach, the OCC and OTS would be merged and renamed the Federal Banking Commission (FBC). The FDIC would no longer examine healthy institutions, but would join in the examination of problem entities. The Fed would, as now, promulgate rules for the establishment of U.S. offices of foreign banks and foreign offices of U.S. banks. The FBC would determine permissible activities for national banks and federal savings associations. The FBC would also be the supervisor for (1)

all independent national banks and thrifts and (2) all depository institutions in any banking organization whose lead depository institution is a national bank or a thrift. The Fed would be the supervisor for (1) all independent state banks and (2) all depository institutions in any banking organization whose lead depository institution is a state chartered bank. The supervisor of depository institutions would examine, take enforcement actions, establish operational rules, and act on applications for all the depository institutions under its jurisdiction, regardless of the banks' charter class. The statistical appendix provides data on the redistribution of banking organizations and assets that would occur under this alternative.

The Board has not yet adopted a position on the supervision and regulation of bank holding companies and their nonbank affiliates. There are two broad options, and a strong case can be made for each:

- Under the first option, all holding companies and their nonbank affiliates could remain under the Fed's jurisdiction, continuing to provide uniform rulemaking for competitive equity and a substantial role for the Fed in shaping the financial structure, so useful for stabilization and systemic risk purposes. This option would result in two regulators for about 1,650 banking organizations, because the lead bank has a national charter, of which 92 percent would be subject to very light Fed supervision because the latter entities have no nonbank activities.
- Under the second option, the jurisdiction of virtually all holding companies could be split between the Fed and the FBC on the basis of the charter class of the lead bank. However, for systemic risk reasons, jurisdiction over those holding companies and

nonbank affiliates of banking organizations that meet certain criteria—such as size and payments and foreign activity—would be retained by the Fed, even if the lead bank of the organization had a national charter. Under this variant, only about 25 to 30 organizations with lead national banks would have two supervisors, depending on the criteria established. All other organizations would have only one supervisor/regulator for the entire organization.

A variant of the second option might retain Fed authority over permissible activities of all holding companies, in order to retain some of the benefits of option one. All other authority over holding companies under the second option would be exercised by the regulator of the lead bank except for the 25 or 30 large organizations with national lead banks. Under either option, the number of banking organizations subject to multiple regulators would drop sharply.

Whatever option may be adopted for holding companies, under the proposal, the Fed would retain supervision and regulation of (1) all foreign banks that operate a bank, branch, agency, or commercial lending affiliate in the United States, and (2) all U.S. nonbanking operations of these foreign banks. As with domestic bank holding companies, all U.S. banks, branches and agencies of foreign banks would be supervised and regulated according to the charter of the largest depository operation. Of the almost 300 foreign banking organizations operating a banking business in the United States, most engage in banking through state chartered entities and thus would have only one U.S. supervisor (the Fed) for its entire operation. Almost 60, however, would have their U.S. banking operations supervised by the FBC because their principal banking operation is conducted through a federally chartered entity or entities.

The criteria used by the Board in developing its alternative approach are: (1) to avoid a single monolithic federal regulator; (2) to assure that banks have a choice of regulator; (3) to reduce or eliminate overlap and duplication; and (4) to maintain a hands-on role in banking supervision for the Federal Reserve. As discussed earlier, the Board believes that the Fed needs a presence sufficient to be able to meet its responsibilities for preventing crises and managing those that it cannot prevent. That requires knowledge from broad based, hands-on supervision and regulation and the ability to affect events—that is, to have authority.

The Board also believes it needs a window into banks of all sizes and in all geographic regions. This is a large country with diverse sets of banks to service the complex structure of our economy. Each set responds in a different way to economic developments; each set provides somewhat different information about the nature of its region or its customer base. A cross-section of banks of all sizes and locations provides important intelligence to the central bank about evolving economic trends and responses to shocks and policy changes. The global nature of our financial markets means that internationally active banking organizations are of particular importance to the central bank. Internationally active banks almost by definition create the potential for systemic risk. Disruptions or difficulties at one of these institutions could well have a significant impact on a wide range of other financial institutions, both domestic and international, and through them on the U.S. economy. This potential for systemic risk arises from the nature of internationally active banks: they are generally large and have subsidiaries or branches overseas; the U.S. branches of foreign banks, for example, are major participants in U.S. financial markets. The banks and their branches fund themselves actively in international money markets, where creditors are relatively quick to restrict funding to banks thought to be in trouble, and where the

problems of one bank can easily affect funding to other banks from the same country. They are almost universally used by their customers and by other banks for clearing and settlement purposes, so that they are substantial participants in the payment system.

In order to meet its responsibilities, the Board believes that it must have an important role in the interface between banks and the financial system, a role that gives it information and influence backed up by enforcement authority. The Board thus proposes that it should continue to promulgate rules for the establishment of all U.S. offices of foreign banks and foreign offices of U.S. banks and supervise and regulate the holding companies and nonbank affiliates of all foreign banks; supervise and regulate either all holding companies and their nonbank affiliates or at least those whose lead subsidiary bank is state chartered *plus* those of a small number of large and financially active banking organizations whose lead banks have a national charter; and supervise and regulate state member banks and, if the lead bank in a holding company is a state member, all their depository affiliates. The proposal also calls for the Fed to supervise and regulate state nonmembers and, if the lead bank in a holding company is a state nonmember, all their depository affiliates, with these banks being a significant *addition* to its regulatory load. This expansion of the Fed's supervisory functions results solely from the view that in a two agency structure it is desirable that there should be a clear delineation of supervision and regulation responsibility by charter class in order to preserve the dual banking system. The Board makes no case that responsibility for such banks—that account for almost one-quarter of bank assets—is needed for financial stability and monetary policy purposes. However, some critical mass of banks of various sizes and locations is required if the Fed is to perform its functions effectively.

In sum, this proposal would achieve essentially all of the benefits of one consolidated regulator while incurring virtually none of its risks. It eliminates duplicate supervision at all depository institutions, and greatly reduces overlapping regulation. It provides for one supervisor for all depository institutions in any banking organization—even though there are two supervising agencies. It maintains the dual banking system by providing for a separate federal supervisor for state banks and permits any bank to change federal regulator by changing charter, thus ensuring a set of checks and balances on the arbitrariness of a single regulator. It maintains the healthy process of dynamic tension in bank rulemaking. It maintains the practical knowledge and skill, and the influence and authority, of the central bank, so critical for crisis prevention, crisis management, and monetary policy, as well as the valuable perspective the central bank brings to supervision. In short, the proposal would avoid an inflexible, single regulator, preserve the dual banking system, assure that an economic perspective is brought to supervision and regulation, and maintain a strong central bank.

Statistical Appendix: The Current and an Alternative Supervisory Structure of Banking Organizations in the United States

Table 1 (all tables follow page A-7) displays the current organizational structure of the 11,000 commercial banks in the United States. Only about 3,000 of the commercial banks—somewhat over one-fourth—are independent, i.e., are not owned by a bank holding company (BHC). About one-third of the banks are subsidiaries of one bank HCs that have no nondepository assets, i.e., BHCs that have no subsidiary other than that one bank. These “shell” HCs use the HC form mainly for tax and funding purposes. As can be seen in rows 2 and 4, the independents and one bank HCs tend to be relatively small, accounting between them for over two-thirds of the banks, but only one-fourth of aggregate commercial bank assets.

Almost three-fourths of the bank assets are held by almost 500 multibank HCs (MBHCs) that own more than one bank and also own nondepository subsidiaries. About 340 MBHC organizations do not have *any* nondepository affiliates and hence their HCs are “shells;” these banks hold about 2 percent of bank assets.

As shown in the last two rows of table 1, most of the BHCs—about two-thirds—are shell one bank HCs. As noted, the relatively small number of non-shell MBHCs (next-to-the-last column) account for the largest volume of bank assets. The holdings of nondepository assets by BHCs (not shown in the table) are also quite concentrated. Two-thirds of the nondepository assets of BHCs are held by 10 MBHCs; 80 percent by the top 20; 88 percent by the top 100. About 1,000 one bank HCs and MBHCs own the \$237 billion of nondepository assets of BHCs.

Tables 2 and 3 provide more detail on commercial banks and BHCs, by focusing on the charter class of the commercial bank and thrift subsidiaries,

cross-classified (in the case of commercial banks) by the charter class of the lead (largest) bank. For example, as shown in the last two columns of table 2, the 301 MBHCs in which the lead bank is a national bank have 1,304 affiliated banks, 684 of which also have national charters and 620 of which have state charters; 536 of the latter banks are not members of the Federal Reserve and 84 are. As shown in the lower panel, these 301 MBHCs (there is only one lead per organization) own 44 thrift affiliates. Table 3 indicates that the 301 MBHCs with national lead banks have \$1.8 trillion of bank assets (\$1,092 billion plus \$663 billion), or almost half of the \$3.6 trillion of bank assets shown in the first column of that table. These MBHCs have thrift assets of \$39 billion.

The federal regulation of *each* corporate component of a banking organization is determined under current law by the charter class of that component, as shown in table 4.¹ Excluding the SEC, there are four federal regulators of depository institutions (excluding credit unions): the Office of the Comptroller of the Currency (OCC); the Federal Reserve (FR); the Federal Deposit Insurance Corporation (FDIC), and the Office of Thrift Supervision (OTS). For *commercial banks* alone, the memo columns at the far right of table 4 indicate that the FDIC currently regulates the largest number of banks, the OCC the largest proportion of bank assets, and the FR the smallest proportion of banks and bank assets. However, the FR regulates and supervises all BHCs shown in table 1 and most foreign banking operations in the United States, shown in table 5. All of the international operations shown in the first panel of table 5 are included in tables 1 through 3; they are consolidated into the U.S. banking statistics. The middle panel contains data on U.S. branches and agencies of foreign banks *not* included in the consolidated worldwide assets of U.S. banks. Currently, the

1. State-chartered entities are also regulated and supervised by the state granting the charter.

FR supervises the vast majority of the number and assets of such entities. Even though significant international banking operations in forms other than U.S. branches and agencies of foreign banks are currently supervised by other agencies, the Congress has directed the Federal Reserve to determine the rules for the establishment of U.S. bank operations abroad, all the rules for Edge Corporations, and—in FDICIA—required the Federal Reserve to approve all entry of foreign banking operations into the United States.

The existing regulatory structure means that a banking organization is now subject to one federal banking supervisor only if it is (1) a single independent entity with no holding company; or (2) a BHC in which all the subsidiary banks are state-chartered members of the FR; or (3) a thrift HC with only thrift subsidiaries other than cooperative or industrial banks. A MBHC organization (whose parent is regulated by the FR) could be subject to four federal regulators if the MBHC had national bank (OCC), state nonmember bank (FDIC), and thrift (OTS) subsidiaries.

While *each* component of a HC is subject to only *one* regulator, table 6 shows one measure of the degree of multiple regulation of banking and thrift organizations. The first two columns of the table reproduce the statistics used by the Treasury in November 1993, which show that 42 percent of U.S. depository institutions have one regulator, about the same proportion have two regulators, and 15 percent have three or four regulators. These data overstate the problem for the 4,200 shell one bank HCs, which are included with those having two regulators: (1) the FR was apparently counted in error by the Treasury as the second regulator for the 359 BHCs with only state member subsidiaries; and (2) the FR on-site supervision of shell parents is far short of an examination. Since for shell HCs the bank subsidiary is the only entity of strong regulatory concern, most of these HC parents are inspected on-site only once

every few years, with some companies going five to ten years between inspections, depending on their previous rating, asset size, and volume of outstanding debt to the public. These inspections are also typically quite brief, requiring one or two individuals for one or two days on-site.

The last two columns of table 6 adjust the Treasury data by excluding the FR as a regulator for shell HCs and also by adjusting for minor definitional differences. These modifications suggest that in fact three-fourths of depository organizations—with 37.5 percent of aggregate depository institution assets—are effectively subject to only one regulator. While these adjustments may understate the overlap, to the extent of the minimal inspection time of shell HCs, the resultant statistics more accurately reflect the effective level of multiple regulation than do the Treasury data. Even these adjustments, however, do not change the fact that more than 15 percent of organizations, with over 45 percent of aggregate depository assets, are subject to three or more regulators.

To address this problem, the Federal Reserve's alternative would sharply reduce multiple supervision and produce one supervisor for all the depository institutions in any banking organization, while reducing the number of regulators from four to two and keeping the FR active in supervision. The rest of this appendix is a statistical summary of regulatory coverage under that approach—which is offered as an example of an option that meets the Federal Reserve's principles.

Two agencies—the FR and the Federal Banking Commission (FBC)—would divide between them the supervision (examining, enforcing, establishing operational rules and considering applications) for all depository entities. The jurisdiction of each agency would be determined by the charter class of the lead

commercial bank: the FBC would supervise (1) independent national banks and thrifts, and (2) *all* bank and thrift affiliates (regardless of charter) of organizations with lead national banks; the FR would supervise (1) independent state banks and (2) *all* bank and thrift affiliates (regardless of charter) of organizations with lead state banks. The FR would also supervise U.S. banks, branches, and agencies of those individual foreign banks in which the dominant volume of assets was at state-chartered entities, and the FBC would supervise all U.S. banks, branches, and agencies of those individual foreign banks in which the largest share of assets was held at federally chartered entities (see memo to table 5).

If the Fed retained supervision and regulation of all holding companies, about 1,650 banking organizations—the about 1,350 national one bank bank holding companies and the about 300 multibank holding companies whose lead bank has a national charter—would have two regulators: the Fed for the 1,650 holding companies and the FBC for the almost 3,000 bank subsidiaries. However, 92 percent of these holding companies are “shells” and hence subject to only minimal supervision by the Federal Reserve. If the supervision and regulation of holding companies were split between the Fed and the FBC on the basis of the charter class of the lead bank, with the Fed also retaining authority over the holding companies of certain large and active national bank holding companies, only the latter banking organization would be subject to dual supervision and regulation. The number of organizations subject to dual supervision would vary between 25 and 30 depending on the criteria used. Under either approach, the number of banking organizations subject to more than one regulator would be reduced sharply and none would have more than two.

Table 7 provides more detail on the *commercial banks* that would be regulated by the FBC either because the bank was (1) an independent national bank,

or (2) a national bank subsidiary of a one-bank HC, or (3) in a MBHC in which the lead bank was a national bank.² Of the 3,745 banks that would be supervised by the FBC, 620 are state-chartered bank affiliates of MBHCs in which the lead is a national bank—536 state nonmembers and 84 state members. The banks that would be supervised by the FBC accounted for more than one-third of all insured commercial banks and 57.5 percent of all bank assets as of September 30, 1993.

Table 8 provides similar data for the *commercial banks* that would be supervised by the FR either because the bank was (1) an independent state bank, or (2) a state bank subsidiary of a one-bank BHC, or (3) in a MBHC in which the lead bank was a state member or nonmember bank.³ Of the almost 7,300 banks that would be supervised by the FR, 261 are national banks (117 in MBHCs in which the lead is a state member and 144 in MBHCs in which the lead is a state nonmember). The banks that would be supervised by the FR accounted for two-thirds of all insured commercial banks and 42.5 percent of all bank assets as of September 30, 1993.

About 85 percent of the banks that would be subject to FR supervision under the alternative proposal are allocated to the Fed because the Fed would be responsible for state nonmembers—state nonmember independents, state nonmembers in one bank HCs, and all banks in MBHCs where the lead bank is a state nonmember. As shown in table 9—which summarizes the allocation of supervisory authority over all entities under the Fed alternative—only 10 percent of the universe of banks (with less than one-fourth of all U.S. bank assets) are at independent state members, state member one bank HCs, or are banks in MBHCs in which a state member is the lead bank (see “State Member Lead” column, “Total Commercial Banks”

2. The FBC would also supervise 43 thrifts that were affiliates of banks under their jurisdiction—in addition to the thrifts that are independent or in thrift HCs.

3. The FR would also supervise 102 thrift affiliates of HCs in which the lead bank is state chartered.

row). The alternative proposal allocates all state banks to the Fed, rather than just member banks, because of the desirability of defining clearly federal supervisory responsibility by charter class to preserve the dual banking system. The Fed, as noted in the text, makes no claim that nonmember banks are needed for stabilization or crisis management purposes. As a supplement to the large and financially active BHCs, the current Fed supervision of state member banks—large and small—provide a sufficient knowledge base for Fed policy purposes.

Table 1
Organizational Structure
of
Federally Insured Commercial Banks
(As of September 30, 1993)

Entity Types	Structure					Total
		One Bank Holding Company		Multibank Holding Company		
	Independent (No HC)	Shell ¹	Other	Shell ¹	Other	
Commercial Banks						
Number	2,980	3,618	1,012	865	2,530	11,005
Percent	27.1	32.9	9.2	7.9	23.0	100.0
Commercial Bank Assets ²						
Level (billions of dollars)	297	270	359	69	2,626	3,621
Percent	8.2	7.5	9.9	1.9	72.5	100.0
Bank Holding Companies						
Number ³		3,619	1,011	341	494	5,465
Percent		66.2	18.5	6.2	9.0	100.0

NOTE: May not add to 100.0% due to rounding.

1. A shell HC owns no nondepository assets.
2. Consolidated worldwide assets. Excludes U.S. branches and agencies of foreign banks. Includes U.S. bank subsidiaries of foreign banks (which are treated just like any other U.S. bank); foreign branches, agencies, and subsidiaries of U.S. banks; and Edge subsidiaries of U.S. banks.
3. HCs measured as "top tier" and excludes 632 intermediate HCs that are subsidiaries of other HCs.

Table 2
Number of Insured Depository Institutions in the U.S.¹
That are Independent Insured Commercial Banks or are in Bank Holding Companies²
as of September 30, 1993

	Total	Not in BHCs	One- Bank BHCs ³	Multi-Bank BHCs									
				Total State and National	State Bank Lead						National Bank Lead		
					Total State		Member Lead		Nonmember Lead				
					Lead	Affiliate	Lead	Affiliate	Lead	Affiliate			Lead
Commercial Banks													
State	7,619	2,194	3,276	534	1,615	534	995	86	256	448	739		620
Member	970	283	362	86	239	86	155	86	111		44		84
Nonmember	6,649	1,911	2,914	448	1,376	448	840		145	448	695		536
National	3,386	786	1,354	301	945		261		117		144	301	684
Total	11,005	2,980	4,630	835	2,560	534	1,256	86	373	448	883	301	1,304
Thrifts ⁴													
Savings & loans	19		4		15		8		2		6		7
Federal	7		2		5		1		-		1		4
State	12		2		10		7		2		5		3
Savings banks	129		71	3	55	3	20		5	3	15		35
Federal	52		11		41		13		4		9		28
State	77		60	3	14	3	7		1	3	6		7
Other thrifts ⁴	6		4		4		-		-		-		2
Total	154		79	3	72	3	28		7	3	21		44
Grand Total	11,159	2,980	4,709	838	2,632	537	1,284	86	380	451	904	301	1,348

1. Includes insured institutions in the 50 states of the United States and the District of Columbia as well as those in the U.S. territories and possessions.

2. Any organization with a banking subsidiary will be included in this table.

3. Based on number of insured commercial banks. If, for example, a BHC owns one insured commercial bank and one or more thrifts, it is considered to be a one bank holding company. BHCs that own state chartered savings banks and no commercial banks are considered to be BHCs under Regulation Y.

4. All thrifts in the lower panel are affiliated with BHCs. The charter class of the *thrift* determines its row. The charter class of the *lead bank* of the BHC that owns the thrift determines the columns to which the thrift is allocated. There are two exceptions to column allocation by lead bank: (1) three multi-bank HCs are each composed of a savings bank lead entity, each with one savings bank affiliate and no commercial bank affiliates (none of which are organizations listed in Table 8); and (2) the thrifts affiliated with the 79 one-bank holding companies are not allocated by charter class of the lead bank. The six "other thrifts" are federally insured cooperative and industrial banks.

Table 3
Total Assets of Insured Depository Institutions in the U.S.^{1,2}
That are Independent Insured Commercial Banks or are in Bank Holding Companies³
as of September 30, 1993
(\$ billions; may not add to totals due to rounding)

	Total	Not in BHCs	One- Bank BHCs	Multi-Bank BHCs									
				Total State and National	State Bank Lead						National Bank Lead		
					Total State		Member Lead		Nonmember Lead				
					Lead	Affiliate	Lead	Affiliate	Lead	Affiliate			Lead
Commercial Banks													
State	1,561	237	363	650	311	650	148	513	82	137	66		163
Member	710	34	81	513	82	513	38	513	36		2		44
Nonmember	851	203	282	137	229	137	110		46	137	64		119
National	2,060	60	266	1,092	642		142		126		16	1,092	500
Total	3,621	297	629	1,742	953	650	290	513	208	137	82	1,092	663
Thrifts ⁴													
Savings & loans	17		1		17		3		*		2		14
Federal	14		1		14		1		-		1		13
State	3		*		3		2		*		2		1
Savings banks	88		58	1	29	1	4		1	1	3		25
Federal	20		1		18		1		*		1		17
State	69		57	1	11	1	2		*	1	2		8
Other Thrifts ⁴	1		1		*		-		-		-		*
Total	107		59	1	45	1	6		1	1	6		39
Grand Total	3,728	297	688	1,743	998	651	296	513	209	138	88	1,092	702

* Less than \$500 million.

1. Includes insured institutions in the 50 states of the United States and the District of Columbia as well as those in the U.S. territories and possessions.
2. Assets are worldwide consolidated depository institution assets, although only assets in the U.S. were used for U.S. banks owned by foreign banking organizations.
3. Any organization with a banking subsidiary will be included in this table.
4. All thrifts in the lower panel are affiliated with BHCs. The charter class of the *thrift* determines its row. The charter class of the *lead bank* of the BHC that owns the thrift determines the column to which the thrift is allocated. There are two exceptions to column allocation by lead bank: (1) three multi-bank HCs are each composed of a savings bank lead entity, each with one savings bank affiliate and no commercial bank affiliates (none of which are organizations listed in Table 8); and (2) the thrifts affiliated with the 79 one-bank holding companies are not allocated by charter class of the lead bank. The six "other thrifts" are federally insured cooperative and industrial banks.

Table 4
Federal Regulator
of
Corporate Components of U.S. Banking Organizations

Entity	Regulator	Memo: Percent of aggregate commercial banks	
		Number	Assets
National Banks	OCC	30.8	56.9
State Banks			
Members	FR	8.8	19.6
Nonmembers	FDIC	60.4	23.5
Savings Banks	OTS/FDIC/FR		
Savings and Loan Associations	OTS		
Cooperative Banks	FDIC/FR		
Industrial Banks	FDIC (if insured)		
Section 20 Affiliates	SEC/FR		
BHCs	FR		
Thrift HCs	OTS		
Memo: Foreign Operations			
Edge Corporations	FR		
U.S. Offices of Foreign Banks			
State Charter	FR		
National Charter	OCC/FR (residual)		
Representative Offices of Foreign Banks	FR		

Table 5
Foreign Bank Operations in the United States
and
U.S. Bank Operations Abroad
(As of September 30, 1993)

ENTITY	Supervised By			TOTAL
	FDIC	OCC	FR	
Included in U.S. Consolidated Worldwide Assets				
U.S. Bank Subsidiaries of Foreign Banks				
Number	61	25	8	94
Assets (billions of dollars)	74.1	67.5	20.4	162.0
Edge Subsidiaries of U.S. Banks				
Number ¹			70	70
Assets (billions of dollars) ²			115.4	115.4
Foreign Branches and Agencies of U.S. Banks				
Number	37	261	93	391
Assets (billions of dollars) ³	11.6	141.6	77.9	231.0
Foreign Bank Subsidiaries of U.S. Banks				
Number	1	5	20	26
Assets (billions of dollars) ³	0.1	1.3	22.1	23.5
Excluded from U.S. Consolidated Worldwide Assets				
U.S. Branches and Agencies of Foreign Banks				
Number	34	71	464	569
U.S. Assets (billions of dollars)	7.4	44.3	632.2	683.9
MEMO:	Supervised By			TOTAL
		FBC	FR	
U.S. Branches and Agencies of Foreign Banks Calculated as in Alternate Proposal ⁴				
Number		85	484	569
U.S. Assets (billions of dollars)		52.3	631.6	683.9

1. Represents the number of Edge corporations that are (1) engaged in banking and owned by U.S. banks; and, (2) engaged in investment activities through the majority ownership of foreign subsidiaries. (Number of Edges owning foreign subsidiaries is as of 12/31/92.)
2. Represents (1) aggregate claims on non-affiliates of Edge corporations engaged in banking and directly owned by a U.S. bank and (2) aggregate claims on non-related organizations of foreign subsidiaries of Edge corporations. (Foreign subsidiaries of Edge corporations are as of 12/31/92.)
3. Represents claims on non-related organizations as of 12/31/92.
4. Agency that supervises the largest share of the assets of the U.S. branches, agencies or banks of an individual foreign bank would supervise all of such offices of that bank.

Table 6
Number of Federal Regulators
for
Consolidated U.S. Depository Organizations ¹

	Originally Reported by U.S. Treasury ²		Adjusted to Exclude Shell BHCs ³	
	Percent of		Percent of	
Number of Regulators	Institutions	Aggregate- Depository Assets	Institutions	Aggregate- Depository Assets
1	42.0	27.0	74.1	37.5
2	43.0 ⁴	26.0 ⁴	10.4	17.1
3	13.0	27.0	12.6	23.9
4	2.0	20.0	2.9	21.5

1. An organization is an independent commercial, savings, cooperative, or industrial bank; an independent savings and loan association; or a "family" of banks and/or thrifts and their HC.
2. As reported in "Consolidating the Federal Bank Regulatory Agencies," U.S. Treasury, November 23, 1993.
3. A BHC with no non-depository subsidiaries. Minor adjustments for other definitional reasons.
4. Apparently includes in error 359 BHCs with only member bank subs, raising the insitutional coverage by 2.6 percentage points and the assets by 1.3 percentage points.

Table 7
Alternative Proposal

**Commercial Banks that Would be Supervised by the
Federal Banking Commission**
(As of September 30, 1993)

Entity	Number of Banks	Assets (billions of dollars)	Percent of Total Insured Commercial Banks	
			Number of Banks	Assets
National Banks not in BHCs	786	60	7.1	1.7
National Banks in one bank BHC	1,354	266	12.3	7.3
National Bank is Lead in MBHC				
National Bank Lead	301	1,092	2.7	30.2
Affiliated Banks				
State Nonmember	536	119	4.9	3.3
State Member	84	44	0.8	1.2
National	684	500	6.2	13.8
Total	1,605	1,755	14.6	48.5
TOTAL	3,745	2,081	34.0	57.5

Table 8
Alternative Proposal
Commercial Banks that Would be Supervised by the
Federal Reserve
(As of September 30, 1993)

Entity	Number of Banks	Assets (billions of dollars)	Percent of Total Insured Commercial Banks	
			Number of Banks	Assets
Not in BHC				
State Member	283	34	2.6	0.9
State Nonmember	1,911	203	17.4	5.6
Total	2,194	237	20.0	6.5
In One Bank BHC				
State Member	362	81	3.3	2.2
State Nonmember	2,914	282	26.5	7.8
Total	3,276	363	29.8	10.0
State Nonmember is Lead in MBHC				
State Nonmember Lead	448	137	4.1	3.8
Affiliated Banks				
State Nonmember	695	64	6.3	1.8
State Members	44	2	0.4	*
National	144	16	1.3	0.4
Total	1,331	219	12.1	6.0
State Member is Lead in MBHC				
State Member Lead	86	513	0.8	14.2
Affiliated Banks				
State Nonmember	145	46	1.3	1.3
State Member	111	36	1.0	1.0
National	117	126	1.1	3.5
Total	459	721	4.2	20.0
TOTAL	7,260	1,540	66.0	42.5

Table 9
Alternative Proposal
Summary of Coverage of Examination, Enforcement, and
Applications by Agency
(As of September 30, 1993)

Entity	FBC (National Bank Lead)	FR		Total
		State Non- member Lead	State Member Lead	
(Percent Distribution of Number)				
National Banks	92.3	4.3	3.5	100.0
State Nonmember Banks	8.1	89.8	2.2	100.0
State Member Banks	8.7	4.5	86.8	100.0
Total Commercial Banks	34.0	55.9	10.0	100.0
Thrifts (includes Industrial and Cooperative Banks)	98.7	1.0	0.3	100.0
(Percent Distribution of Assets)				
National Banks	93.1	0.8	6.1	100.0
State Nonmember Banks	14.0	80.6	5.4	100.0
State Member Banks	6.2	0.3	93.5	100.0
Total Commercial Banks	57.5	19.4	23.1	100.0
Thrifts (includes Industrial and Cooperative Banks)	99.3	0.1	0.6	100.0