



SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

(202) 272-2650



For Release: Thursday, February 4

82-10

COMMISSION PROPOSES PROGRAM TO SIMPLIFY FINANCIAL INSTITUTION REGULATION

The Commission proposed to a Congressional committee today a five-point program designed to bring about comprehensive simplification and rationalization of the systems under which the financial service industries are regulated. The objective is to better serve the needs and interests of investors and depositors, who in the final analysis, bear the costs of the present systems.

Chairman John S.R. Shad unveiled the plan in testimony prepared for delivery Thursday morning to the Subcommittee on Securities of the Senate Committee on Banking, Housing and Urban Affairs.

Following are excerpts from the Chairman's prepared testimony:

Today, the Commission wishes to reiterate its support of the Treasury's proposed Bank Holding Company Deregulation Act and also to recommend a specific course of action to address the multiple problems posed by the present financial regulatory systems.

- more -

These systems were created half a century ago -- in the depths of the depression. They were responsive to a different era and different problems from those the nation confronts today.

Today, we have regulation by industry categories. Several different state and federal agencies regulate each of the financial services industries -- the securities industry, the commercial banking industry, the savings and loan industry and the insurance industry. However, in response to changing economic conditions, new and innovative financial products and services have bridged the traditional gaps between these industries. They include the money market funds; cash management accounts; variable annuities and life insurance policies -- and many others.

These industries have also expanded into each other's fields through major mergers and acquisitions. The Prudential, American Express and Sears are each engaged in a variety of financial services. They have each also recently acquired a major securities firm. The Bank of America, the Security Pacific and various savings and loan associations have also announced their intentions to enter the securities industry. On the other hand, Merrill Lynch, E.F. Hutton and other securities firms have acquired insurance companies. Shearson has acquired a trust company. And the list goes on.

Regulatory conflicts and overlaps have also multiplied. Today, jurisdiction over aspects of just the securities markets is exercised by at least ten Federal agencies -- plus the state securities, banking, savings and loan and insurance commissions.

In some areas, jurisdictional issues between regulatory agencies have prevented new financial products from being offered to the public. In other areas, competitive factors are determined by regulatory classifications, rather than by the needs and demands of the marketplace.

Regulatory reform has been repeatedly urged by both Democratic and Republican Administrations over the years. Given the present support for regulatory reform on both sides of the aisle in both houses of Congress, now is the time to simplify and rationalize the financial regulatory system -- and address the future needs and interests of investors and depositors.

The Commission respectfully recommends the following five point program for the Committee's consideration:

1. Nonpartisan Task Force: The appointment of a nonpartisan Task Force of experienced executives and recognized authorities, who individually are thoroughly familiar with major segments of the financial regulatory structure. With the assistance and cooperation of the regulatory agencies, such a Task Force, should be given a one-year mandate to develop

a framework for legislation to update, simplify and rationalize the system.

2. Regulation by Function:

The Task Force should consider regulating certain products and activities by functions, rather than by outmoded industry classification.

The new securities affiliates proposed by the Treasury Department is an important first step toward functional regulations.

3. Consolidation of Related Regulatory Activities:

Consideration should also be given to consolidation of related regulatory activity with a view to reducing conflicts and administrative costs and increasing operational efficiency and financial flexibility.

Pending legislation proposes consolidation of the insurance funds of the FDIC, the Federal Savings and Loan Insurance Corporation and the National Credit Union Administration.

The consolidation of other financial regulatory functions also warrants serious consideration.

4. Regulatory Simplification:

Equally as important as consolidations and regulation by function, is the necessity to eliminate excessive, overlapping and conflicting rules and regulations within and between the regulatory agencies.

5. Investor and Depositor Protections:

The objective of this program is to better serve the needs and interests of investors and depositors. Sight is sometimes lost of the fact that in the final analysis, they bear the costs of the present burdensome system.

The Commission would be pleased to submit a draft of the proposed Task Force's charter for the Committee's consideration.

Proposed legislation that is responsive to current problems of the financial service industries should not be delayed pending the results of the Task Force's efforts.

#