News and Current Events :: U.S. Weighs Single Agency to Regulate Banking Industry

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U.S. Weighs Single Agency to Regulate Banking Industry
Plan Is Key Facet of Sweeping Overhaul

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Thursday, May 28, 2009
http://www.washingtonpost.com/wp-dyn/co ... id=topnews

Senior administration officials are considering the creation of a single agency to regulate the banking industry, replacing a patchwork of agencies that failed to prevent banks from falling into the worst financial crisis since the Great Depression, sources said.

The agency would be a key element in the administration's sweeping overhaul of financial regulation, which officials hope to unveil in coming weeks, including the creation of a new authority to police risks to the financial system as well as a new agency to protect consumers, according to three people familiar with the matter. Most of the proposals would require legislation.

"The president is committed to signing a regulatory reform package by the end of the year, and officials at the White House and the Treasury Department are continuing work with Congress on the final phases of a proposal, but there is no final proposal in place and any announcement will not be for a couple of weeks," said White House deputy spokesman Jennifer R. Psaki.

Senior officials have reached agreement on aspects of the plan, according to a person familiar with the discussions.

They favor vesting the Federal Reserve with new powers as a systemic risk regulator, with broad responsibility for detecting threats to the financial system. The powers would include oversight of previously unregulated markets, such as the derivatives trade, and of market participants such as hedge funds.

Officials also favor the creation of a new agency to enforce laws protecting consumers of financial products such as mortgages and credit cards.

And they want to merge the Securities and Exchange Commission and the Commodity Futures Trading Commission, which share responsibility for protecting investors from fraud.

Other aspects of the plan remain under discussion, sources said, speaking on condition of anonymity because they were not authorized to disclose details.

Among these ideas is the creation of a single agency to regulate banks. The new regulator would assume responsibility for the safety and soundness of banks, currently divided among the Fed and three other agencies: the Office of the Comptroller of the Currency, the Office of Thrift Supervision and the Federal Deposit Insurance Corp. The OCC and the OTS would probably disappear, while the Fed and the FDIC would retain other responsibilities.

Under the current system, banks can choose their regulator. Because the OCC, OTS and FDIC are funded by fees from the banks, the regulators have an incentive to compete for business by offering more lenient oversight. The system also divides supervision of the largest financial conglomerates among multiple agencies, each with responsibility for certain subsidiaries, creating gaps in coverage that companies have exploited. Many experts say these failures of regulation contributed to the financial crisis.

Officials also are considering giving the FDIC the power to seize large financial firms, such as the parent companies of banks, to prevent their collapse. Treasury Secretary Timothy F. Geithner and Fed Chairman Ben S. Bernanke both have testified that the financial crisis could have been mitigated if the government had been able to exercise such authority. For instance, it could have averted the chaos that followed the bankruptcy of investment bank Lehman Brothers, officials h ave said.

Aspects of the plan could face significant opposition on Capitol Hill and among other regulators.

Former Treasury secretary Henry M. Paulson Jr. proposed the creation of a single banking regulator last spring, reviving an idea that has circulated Washington at intervals. In the past, existing agencies and the banking industry have fiercely resisted such proposals.

The plan also would probably face stiff opposition from states, which now have the power to charter and supervise bank s.

"As a practical matter, I think the idea is a non-starter," said Ed Yingling, president of the American Bankers Association. He said the administration should focus on the two ideas that command the broadest consensus: the creation of a syste m risk regulator and a resolution authority for collapsing companies.

"That's probably all Congress can handle," he said. "They can propose a lot of things, but there's a real risk in doing so t hat you just overload the system."

Those plans also have powerful critics. Top lawmakers have expressed skepticism about whether the Fed should be ves ted with new powers. Several top regulators, including FDIC Chairman Sheila C. Bair and SEC Chairman Mary L. Schap iro, instead have advocated for a council of regulators that, in concert, would regulate systemic risk.

The plan to consolidate the SEC and the CFTC could also stumble on the geography of Capitol Hill. The two agencies ar e overseen by different committees. In the House, for example, the Agriculture Committee oversees the CFTC and the F inancial Services Committee oversees the SEC. Neither is keen to give up power.

Staff writers Michael D. Shear and Neil Irwin contributed to this report.