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Statement of the Shadow Financial Regulatory Committee

on

Strategic Plans of Federal Financial Institution Regulatory Agencies

December 7, 1997

The Government Performance and Results Act of 1993 required all government agencies to produce a strategic plan by September 30, 1997. Its objective was to make the agencies pay more attention to their long-run goals and priorities, and express them in specific terms so that performance could actually be measured.

The Act required the plan to include a mission statement, goals and objectives for the period 1997 through 2002, approaches and strategies to achieve those goals, a discussion of external factors affecting the plans, a discussion of the relationship between strategic objectives and annual goals, and a program to evaluate actual performance. The Committee reviewed the plans of the Board of Governors of the Federal Reserve System (FRB), The Office of the Comptroller of the Currency (OCC), The Federal Deposit Insurance Corporation (FDIC), The Office of Thrift Supervision (OTS), and The National Credit Union Administration (NCUA). Each agency's plan, of course, reflected its unique statutory role. This statement will focus principally on the safety and soundness supervision and regulation section of each agency's plan.

In general, the plans do not achieve the objectives of the Act and need considerable improvement in their quality and substance. There are two primary deficiencies: (1) The plans do not expressly set priorities among a variety of goals, and (2) The goals mentioned do not reflect any link to a coherent strategy.

For example:

- The plan published by the OCC does not describe how the agency's significant efforts to extend national bank activities through subsidiaries relate in any way to its other goals or to its long-term vision for the banking industry.

- The FDIC's plan does not even mention the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), the most significant legislation to come out of the S&L and banking disaster. The underlying concept of FDICIA is that the FDIC should assure the safety and soundness of insured banks by insisting on and policing strong capitalization. Its strategic plan should reflect this objective.

- The Federal Reserve Board's banking discussion paid little attention to the Board's plans for administering the Bank Holding Company Act. The Board's recent interpretations of the Act have reduced the Glass-Steagall Act to a minor annoyance--an action with which we agree--and have opened up significant areas of data processing activity to bank holding companies. This must reflect a series of assumptions by the Board about the future of the financial industry and the role of bank holding companies in that future. What these assumptions are, and what the Board plans to do in the future, are nowhere described in its strategic plan.

General Observations

To fulfill the Congressional objective:

- All the plans should discuss the implication of regulatory policies for industry market share and trends in market share, and vice versa. None do.

- All the plans should describe how the agency intends to implement the mandates and requirements of FDICIA.

- All the plans should discuss how reliance on risk management relates to capital standards and the enforcement of those standards.

- All the plans should discuss institutional consolidation in terms of implications for the industry and consumers of financial services, not just staffing of the agencies.