

May 1996

# Financial Institutions and Markets Issue Area Plans

## Fiscal Years 1997-98





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# Foreword

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As the investigative arm of Congress and the nation's auditor, the General Accounting Office is charged with following the federal dollar wherever it goes. Reflecting stringent standards of objectivity and independence, GAO's audits, evaluations, and investigations promote a more efficient and cost-effective government; expose waste, fraud, abuse, and mismanagement in federal programs; help Congress target budget reductions; assess financial information management; and alert Congress to developing trends that may have significant fiscal or budgetary consequences. In fulfilling its responsibilities, GAO performs original research and uses hundreds of databases or creates its own when information is unavailable elsewhere.

To ensure that GAO's resources are directed toward the most important issues facing Congress, each of GAO's 32 issue areas develops a strategic plan that describes the significance of the issues it addresses, its objectives, and the focus of its work. Each issue area relies heavily on input from congressional committees, agency officials, and subject-matter experts in developing its strategic plan.

The Financial Institutions and Markets issue area is one of 32 issue areas. Relying heavily on consultation with congressional committees, as well as with industry, academia, and agency officials and other experts knowledgeable of the issues, GAO develops strategic plans to ensure that its limited resources are directed at the most important issues of concern to the Congress. The Financial Institutions and Markets issue area covers the Federal Reserve System, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the Securities and Exchange Commission, the Commodity Futures Trading Commission, the Office of Federal Housing Enterprise Oversight, the Farm Credit Administration, the National Credit Union Administration, the Federal Housing Finance Board, and those parts of the Treasury Department that are charged with oversight of financial institutions and markets.

GAO's program evaluation and performance work in the financial sector generally focuses on assessing the ability of the regulatory framework to maintain safety and soundness, financial stability, and investor protection, while allowing for a robust and competitive financial services industry. Recently, GAO has issued reports examining the Community Reinvestment Act, the role of foreign banks in the U.S. banking system, SEC and CFTC enforcement programs, bank securities activities, bank mutual fund sales, and the bank regulatory structures of France and Canada.

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The principal issues in the financial institutions and markets area are

- enhancing financial system efficiency,
- maintaining financial system integrity, and
- facilitating choices about financial services.

In the pages that follow, we describe our key planned work on these pivotal issues.

Because events may significantly affect even the best of plans and because periodic measurement of success against any plan is essential, our planning process allows for updating and the flexibility to respond quickly to emerging issues. If you have any questions or suggestions about this plan, please call me at (202) 512-8678.



James L. Bothwell  
Director  
Financial Institutions and Markets

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# Contents

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Foreword	1
Table I: Key Issues	4
Table II: Planned Major Work	6
Table III: GAO Contacts	7

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# Table I: Key Issues

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Issue	Significance
<b>Enhancing financial efficiency:</b> How can the United States modernize its regulatory framework to enhance efficiency and adapt to changes in the domestic and international financial system?	Financial institutions and markets, responding to the changing demands of investors and savers as well as advances in information and communications technology, have evolved beyond the traditional industry and geographic boundaries of the past. In particular, the continuing development of a global financial system has presented new challenges and opportunities for U.S. banks, insurers, and securities firms. Existing regulatory policies and programs have not always kept pace with this dynamic, global marketplace. In response to these developments, both Congress and the regulatory agencies have proposed changes to the regulatory framework that would bring industry limits and powers in line with the evolving financial world.
<b>Managing risks to maintain system integrity:</b> How can the regulatory framework establish programs and policies that enhance risk management and maintain the safety, soundness, and integrity of the global financial system?	The functioning of our economy depends on the provision by the financial system of products and services that entail the management or intermediation of risk. A task of the federal regulatory authorities is to permit risk-taking while protecting against events that could disrupt the functioning of the system. To perform this task effectively, the regulatory authorities should foster market discipline but rely as necessary on monitoring, regulation, and enforcement.
<b>Facilitating choices about financial services:</b> How can the regulatory framework ensure that customers receive appropriate services, disclosure, and protection?	Competition, product proliferation, and the arrival of electronic commerce have provided customers with an array of financial services. Customers have come to rely on the marketplace to ensure they receive services, disclosure, and protection. However, customers may lack information necessary to compare competing financial products and may lack sufficient and necessary information to make rational financial decisions. Congress and regulators face the competing demands of ensuring customers are protected and minimizing regulatory burden.

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**Table I: Key Issues**

<b>Objectives</b>	<b>Focus of work</b>
(1) Identify how financial institutions, markets, and regulatory agencies are responding to the changing demands and technological advances of a dynamic, global marketplace.	Rationalized and consolidated supervision of financial firms — with expanded powers — in international markets
(2) Evaluate existing/proposed laws and regulations in terms of their impact on market efficiency, competition, and the relative international position of U.S. financial firms.	Effective and efficient clearance and payments systems
(3) Analyze proposals to modernize the regulatory framework and improve regulatory efficiency in the context of an evolving domestic and international financial system.	Evaluation of risk-based capital — across industries — across nations
(1) Evaluate the effectiveness of risk-based capital standards in improving the safety and soundness of financial institutions.	Evaluation of financial institutions regulators' risk management oversight
(2) Evaluate federal regulators' efforts to implement laws and develop methods or processes to control system risk and ensure safety and soundness.	International coordination among — futures exchange regulators — bank regulators
(3) Identify the types of information and means of disclosure that will allow the market and/or regulators to evaluate the risk profile of a financial firm or industry.	Appropriateness and effectiveness of self-regulatory organizations
(1) Identify effective and efficient regulatory approaches to facilitating consumers' ability to make informed choices, emphasizing accurate and comparable disclosure about financial products.	Information necessary so customers can understand and monitor risk
(2) Contribute to prevention of fraud and market abuse in part by identifying patterns of abusive practices to be restricted by regulators.	Improving usefulness of disclosure

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# Table II: Planned Major Work

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Issue	Planned major job starts
<b>Financial system efficiency</b>	<ul style="list-style-type: none"><li>— Effects of abolishing the thrift charter and merging the Office of Thrift Supervision in the Office of the Comptroller of the Currency</li><li>— Adequacy of supervision of overseas activities of U.S. banks</li><li>— Analysis of risk-based capital and its effects on business incentives</li><li>— Evaluation of oversight of the internationalization of equity markets—24-hour global trading</li><li>— Review the implementation of requirement to complete securities transactions in 3 days—T+ 3 settlement changes</li></ul>
<b>Maintain system integrity</b>	<ul style="list-style-type: none"><li>— Analyses of the operations and oversight of self-regulatory organizations</li><li>— Comparison of new risk management approach to supervision with current approach</li><li>— Evaluation of international coordination of futures exchange regulators</li><li>— Adequacy of mutual fund oversight</li><li>— Evaluation of risk measurement model for Fannie Mae and Freddie Mac</li><li>— Cross-industry comparison of risk-based capital standards and evaluation of alternative approaches</li></ul>
<b>Facilitating financial choices</b>	<ul style="list-style-type: none"><li>— Analyses of regulation of electronic banking and protection provided customers</li><li>— Evaluation of the implementation of Government Securities Act</li><li>— Mutual funds risk controls and disclosure issues</li></ul>

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# Table III: GAO Contacts

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