The supervisory implications of financial globalization: Three views

At the 1989 Lake Bluff conference on globalization, three authorities presented their personal—and conflicting—views on international financial regulation in general, and the 1988 BIS-sponsored Basle agreement, in particular.

Competitive equality and supervisory convenience

Chester B. Feldberg

''Clearly the financial system has been undergoing dramatic and far reaching changes in the decade of the 1980s. And equally clearly, the supervisory and regulatory framework must adapt to this rapidly changing environment... Some major evolutionary trends have emerged in the 1980s that appear to me to be irreversible and to carry important supervisory implications. First, geographic barriers to competition have been falling, both in the U.S. and abroad. Among the more noteworthy developments are the growth in interstate banking in the U.S., the prospect of dramatic reductions in barriers to financial services competition within the European Community as 1992 approaches, and the strategic positioning of banking and securities firms in key global markets. These changes will inevitably result in an expansion in the geographic scope of the lead supervisor's responsibility, and call for much closer coordination among supervisors in different jurisdictions. Implicit in such coordination is the need to develop mechanisms for the broad exchange of supervisory information among different authorities.

''A second related trend of the 1980s, is that traditional barriers to competition between different types of financial institutions have been breaking down at an ever-quickening pace. Here too, there is a pressing need for banking and securities supervisors to expand their knowledge base in order to better understand and monitor the risks associated with a whole new range of activities and products.

''Finally, the 1980s have produced rapid technological advancements that have led to important financial innovations in both markets and products. These changes have greatly reduced traditional operating constraints on risk taking and facilitated a shortening of performance horizons, allowing financial market participants to be more aggressive and markets more volatile.

Bigger burdens on regulators

''All in all, the growing interdependency among markets and among financial market participants is placing a greater burden on regulators and supervisors everywhere. Let me now try to briefly highlight some of these burdens in four major areas: financial structure, competitive access, supervisory convergence and payment system concerns.

''As banks expand their operations into new activities, especially securities activities, and into new and more interdependent markets, important questions are raised as to what form of corporate organizational structure will enable them to compete most effectively and most safely. In the United States, bank holding companies have been permitted by the Federal Reserve Board to engage in a growing list of securities activities on the condition that such activities be carried out in separate, non-

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bank subsidiaries of the parent holding company. At the same time, extensive firewalls have been erected to guard against unfair competition, conflict of interest, and undue concentration, as well as to insulate the bank from potential risks of the securities activities.

"In Europe, there is broad agreement that banks can exercise both banking and securities powers, although the particular corporate structures will differ. Germany, for example, has a universal banking structure, in which securities and banking activities are both conducted directly within the bank, while in the U.K. banks typically establish separate subsidiaries to engage in securities activities. In practice, however, these two structures may not be all that different, since there are few outright restrictions on the flow of funds and capital between a U.K. bank and its securities subsidiary. Thus, banks having sufficient overall capital face few constraints in operating a securities business. In Japan, the Ministry of Finance is currently reviewing Article 65, their version of our Glass-Steagall Act, and seems likely to allow some overlapping of banking and securities powers, although the exact structure has yet to be decided.

"In my judgment the Federal Reserve Board's basic firewalls approach represents a reasonable and appropriate first step in its efforts to grant new securities powers to bank holding companies in a gradual and carefully controlled way... Over the long haul, however, I do have some real questions, as to whether the firewalls approach may risk placing U.S. firms at a rather significant competitive disadvantage, by limiting important synergies and operating efficiencies that might otherwise be realized. This issue will have to be closely monitored, to ensure that a proper balance is maintained between our various supervisory concerns and the realities of the changing competitive environment.

Competitive equality

"As financial globalization proceeds, it should not be surprising to anyone that the pressures for competitive equality in all major markets have intensified. Two recent examples come to mind.

"First, the EEC has been struggling with the broad issue of reciprocity, in drafting its Second Banking Directive and, after considerable debate, appears to have settled on a policy, the main thrust of which might be termed reciprocal national treatment. Under that policy, firms from a non-EEC country will be granted full competitive equality in their operations within the EEC, on the expectation that EEC banks will enjoy equal competitive opportunities in their operations in the non-EEC country.

"Second,.the U.S. Congress followed a basically similar approach last year with its passage of the Primary Dealers Act. That act prohibited foreign firms from being designated or from continuing their designation as a primary dealer in U.S. government securities, if the firm's home country does not accord to U.S. companies the same competitive opportunities in the underwriting and distribution of government securities that the country accords to its own domestic firms. Moreover, the Federal Reserve is required to monitor changing circumstances in the relevant foreign securities markets, to assure that the requirements of the Act are met on an ongoing basis... Looking forward, it seems to me, that there must be both the perception and the reality of a level competitive playing field, in all major markets, if globalization is going to work over the long term.

Supervisory convergence

"Let me turn now to the issue of supervisory convergence. Globalization can only work in a supervisory environment that both ensures the safety and soundness of the international financial system and encourages free and open competition among market participants to the maximum extent possible. As global markets have become more competitive, the pressures on profit margins have intensified. This process has helped to expose the differences in supervisory approaches from country to country, and how such differences can affect the competitiveness and profitability of a nation's financial institutions. This in turn has led to recent efforts at international harmonization of supervisory policy. The major accomplishment to date is the BIS agreement on risk-based capital standard that was concluded in 1988 in Basle, Switzerland. The impetus for that agreement arose out of various concerns. Two that had international relevance were, first, the dramatic global growth of off-balance-sheet items, such as interest-rate and foreign-exchange rate swaps, whose risk characteristics traditionally had not been factored into the assessment of a bank's capital position. And second, the lack of differentiation in capital treatment between low-risk, low-yield assets and high-risk, high-yield instruments, which created an obvious incentive to take on additional risk.

"The bank supervisors recognized that any meaningful effort to address these concerns needed international cooperation. Going it alone could have put their domestic banks at a severe competitive disadvantage and could have risked driving certain businesses offshore. While the BIS agreement is less than a perfect document, representing as it does a compromise of diverse national interests and concerns, it is, nevertheless, an important milestone in international bank supervisory cooperation. Hopefully the agreement will be just the first step in international efforts to address other types of risk, such as interest-rate and foreign-exchange rate risk, and perhaps also, liquidity risk.

"The goal of achieving capital convergence is not limited to just the banks. Recently an international organization of securities supervisors, IOSCO, has begun to address similar issues in an effort to improve coordination. This is an extremely useful and welcome development, which hopefully will result in the adoption of a uniform risk-based capital requirement for securities firms that is at least functionally equivalent to the capital approach adopted by the bank supervisors.

"All this quickly leads to difficult questions about the future structure of supervision: Whether there should be consolidated supervision of individual institutions under a single regulator, pure functional supervision, or functional supervision with a lead regulator overseeing the consolidated entity.

"It seems to me that there is a need to assure that all major participants in the global financial system are appropriately supervised by some recognized regulatory authority. Given the interdependence of markets and firms, and the size and speed with which transactions occur, as well as the systemic risks if a major player cannot honor its obligations at the end of the day, we are at a point where there is no room for unregulated or only partially regulated participants. U.S. investment bank holding companies, which are not supervised on a consolidated basis by the SEC and which carry out some important risk-generating activities at the unsupervised holding company level, are a good case in point.

Payment risk

"The final area of international supervisory concern is less glamorous and until recently, often ignored. And that is, the payment risk in the clearing and settlement of financial markets, which Gerald Corrigan, President of the New York Fed, likes to refer to as the plumbing of the system. This is an important issue for all supervisors, but is a particularly important one for the U.S., given that the dollar is the currency of choice in a large number of financial transactions. Earlier this year, the Board of Governors of the Federal Reserve System proposed changes in its payments risk reduction program that would impose explicit prices on daylight overdrafts and expand the use of collateral in order to control the risk. The Board also issued two new policy statements, designed to reduce credit exposures on domestic and offshore payment systems. Among other things, the two policy statements call for appropriate supervisory oversight over all such systems to assure that credit and liquidity risks are properly understood and managed, and that settlement occurs in a timely manner.

"I might add that the Federal Reserve is not the only group actively concerned with clearing and settlement risk on a global basis. The Group of 30, earlier this year, recommended the establishment of global standards for national clearing and settlement of corporate securities. Also, the central banks of the G-10 countries under the auspices of the BIS are currently engaged in a major study of netting arrangements, with a view to identifying possible approaches to netting, that offer the potential to significantly reduce risk...

"My crystal ball is a bit cloudy as to how all of the supervisory issues I've touched upon will ultimately be resolved. But, one thing does seem absolutely clear to me, and that is, that the world of supervision cannot stand pat during this process, it must react and it must adapt to the changing financial scene."

Incentive conflict in the international risk-based capital agreement

Edward J. Kane

"There is little reason to doubt that a globally integrated pattern of financial regulation would exist in the global village. What can be doubted is that authorities either know how to minimize or always strive to minimize unfavorable movements in the *long-run* safety and soundness of the financial system as it moves toward a globally integrated pattern... Incentive incompatibilities inherent in representative democracy make it less dangerous for the adjustment process to be driven by world-wide competition among differentially regulated private firms pursuing opportunities for diversification and growth than to be led by multilateral cooperative agreements negotiated from time to time by imperfectly accountable national regulatory entities...

"This assertion is based on analysis that shows that regulatory performance tends to be compromised by important defects in governmental accountability. These defects create incentives for a nation's politicians, regulators, or regulatory clienteles to favor the interests of decapitalized deposit institutions at the expense of taxpayers as a whole... The perversity of such strategies is that they foster financial instability and allocational inefficiency in the long run. These perverse incentives make it likely that governments whose deposit-insurance schemes have been supporting cartel-like rents and concealing substantial taxpayer losses will use international regulatory agreements as yet another device for postponing regulatory adjustments that their society desperately needs...

"The producers of financial regulatory services can be thought of as constituting an industry, the members of which establish an equilibrium market structure. This industry consists of private self-regulatory associations and state, federal, foreign, and international bureaus. We may envision these entities as continually making adjustments in the services and regulatory burdens they offer, in hopes of winning regulatory business away from each other. We may also envision their managers as occasionally investigating possibilities for establishing some kind of cartel...

The Basle agreement

"Using the cartel analogy, the rest of this article analyzes the fruit of one major international regulatory accord: the Basle risk-based capital agreement... The analysis seeks to show that the benefits of establishing this common supervisory agreement were misadvertised. The new capital requirements will not, as claimed by some, noticeably raise the funding costs of rapidly growing Japanese banks. What the agreement will do is to paper over and to prolong serious tensions in individual countries' regulatory tactics and strategies in the short run (particularly, the existence of deposit-insurance subsidies to risk-taking and barriers to foreign entry into Japanese deposits) and to refocus rather than to curtail international regulatory competition.

"Bank for International Settlements (BIS) General Manager Alexandre Lamfalussy ties the case for common bank-capital standards to the hypothesis that, when capital requirements are set in isolation, competitive pressure prompts authorities to set capital requirements too low relative to the aggregate riskiness of bank portfolios and leads financial institutions to migrate to regulators that set low capital requirements... In 1987 congressional testimony,

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Gerald Corrigan described the purpose of the BIS negotiations more plainly: '...the single item on which I place greatest emphasis relates to bank capital adequacy standards and specifically the goal of moving Japanese bank capital standards into closer alignment with emerging international standards.'

"The low core-capital ratios recorded for the various classes of Japanese banks give the Lamfalussy-Corrigan argument considerable plausibility. However, the argument neglects two important distinctions and incorporates what appears to be a counterfactual assumption. First, the argument fails to distinguish the market value of bank's net worth or capital from the book (or accounting) value. Second, the argument fails to distinguish the separate effects of bank capital, capital requirements, and deposit-insurance guarantees on bank funding cost and risk-taking behavior. Most importantly, BIS and Western capital requirements apply only to book-value capital so that increases in capital requirements need not require any increase in the market value of capital or any decrease in funding cost or risk-taking... Third, the argument fails to explain why both banks that are poorly capitalized on a market-value basis and previously low-requirement regulators should not reasonably be assumed to find and exploit loopholes to circumvent the agreements.

"An alternative interpretation is that regulatory authorities in the U.S. and Europe conceived of capital-adequacy standards partly as a way to restrain Japanese banks, penetration of European and American financial markets by raising their capital ratios to 8 percent. These standards may be seen as a reaction to a sustained redistribution of financial market shares toward Japanese banks and securities firms which now dominate lists of the world's largest institutions in each category.

"Declines in the international market share of non-Japanese firms wrought simultaneous declines in the market shares of these firms' home-country regulators. Once this decline was recognized, it created pressure for regulatory innovation in the world's other financial centers... Negotiated under the auspices of the BIS, the Basle risk-based capital agreement embodies serious misconceptions about the sources of Japanese banks' relatively low funding cost. Economic analysis indicates that Japanese deposit interest rates are low relative to parallel rates in other countries for three interconnected reasons:

"First, Japan has been a nation with a high rate of savings, a condition that by itself would tend to place its domestic interest rates below those of low-saving, weaker-currency countries...

"Second, Japanese regulators assist Japanese banks not to compete as aggressively against each other for low-denomination domestic deposits as free foreign-bank entry would require...

"Third, Japanese banks are known to possess a relatively high level of market-value capital. In recent years, market capital has averaged several times the book-value net worth of Japanese banks.

Bank capital levels

"A paper written with Haluk Unal and Asli Demirguc-Kunt shows that in 1987 and 1988 the ratio of market-value to book-value capital reached a peak over 8.5 for each of the three largest size categories of Japanese banks. These banks' strong market-value position generates two complementary benefits. First, it lowers Japanese banks' cost of raising debt capital at home. Second, outside of Japan, a high level of bank capital gives foreign depositors an important form of comfort. While the banks of all major countries receive at least conjectural back-up guarantees of their deposits and other debt from their home-country governments, Japanese banks offer corporate and other large customers for deposits and loan commitments the additional prior protection of substantial amounts of stockholder-contributed capital.

"Thus, any hope that the Basle risk-based capital agreement would check the international growth of Japanese banks is rooted in a false theory of corporate finance. U.S. and European regulators blamed defects in Japanese capital regulation rather than anticompetitive elements in Japanese patterns of entry and deposit-rate regulation as the principal reason for the lesser international competitiveness of U.S. and European banks. They claimed that the relatively low levels of book-value capital for large Japanese banks constituted a funding advantage conferred on them unwisely by growth-minded Japanese regulators. Such a view is strikingly at odds with the efficient-market theory of corporate finance. This theory holds that increases in the market value of capital lower the cost of issuing or rolling over formally uninsured deposit debt, but that exercising accounting options that serve to inflate artificially the book value of a bank's capital does not favorably affect deposit interest rates. ...

''In foreign markets, Japanese banks' and securities firms' advantage is partly real and partly apparent. The merely apparent part of Japanese financial firms' international growth is rooted in the dialectical efforts of Japanese banks and their large customers to lessen the regulatory burdens of domestic controls on interest rates. ... However, Japanese banks' real and potentially lasting advantage lies in their having privileged home-turf access to domestic savings and being more strongly capitalized on a market-value basis...

Bargaining for access

''Richard Wright and Gunter Pauli see Japanese strategies for penetrating world financial markets as conditioned on 'government policies that both protect the home market and actively promote the position of Japanese financial institutions abroad.' In free deposit and loan markets, competition would only allow the export of Japanese savings to be intermediated by Japanese banks if these institutions were more efficient intermediators than banks from other nations. In Japan, deposit-rate ceilings, branch-banking laws, and depository-institution charter segmentation greatly limit the size of the deposit base a foreign bank can hope establish. While Japanese banks operating in the U.S. have been able to progress to more than 10 percent of the U.S. market for commercial-bank deposits, foreign banks operating in Japan have gained only about 3 percent of the corresponding Japanese market.

''Foreign governments and trade associations of 'guest' firms have placed mounting international political pressure on Japanese officials to widen foreign access to their domestic financial markets... The U.K. has moved to halt branching in Britain by Japan's regional banks until Japan more fully liberalizes British firms' ability to participate in the Tokyo Stock Exchange. France is reported to have held up an application by a Japanese bank to establish a branch office in Paris until Credit Lyonnais received a seat on the same Tokyo exchange. Similarly, the U.S. Congress passed legislation in 1988 that called on the Federal Reserve not to recognize as 'primary dealers' in U.S. government securities financial institutions from countries that deny similar competitive opportunities to U.S., firms.

''What should disturb U.S. and European citizens about the strategies being pursued by Western regulators is that, authorities are trading *banking privileges* in their countries for *securities privileges* in Japan. Because in the long run it would be impossible for the Japanese to insulate securities markets effectively, this strikes a series of prototypically short-sighted regulatory bargains. These deals perpetuate Japanese banks' capacity to exploit Japanese savers domestically and to use this funding-cost advantage to compete advantageously for foreign business with Western banks outside of Japan...

Ties that bind

''It is ironic that the costs that U.S. banks face in trying to arbitrage Japanese restrictions on the operations of their branches and affiliates in Japan are reinforced by parallel U.S. limitations on these institutions' domestic investment banking and other nonbank activities. The effects of these restrictions are lessened but not eliminated by structural arbitrage. For example, large U.S. banks (such as Morgan) have adapted their foreign securities affiliates to develop and support a variety of domestically impermissible securities activities on an offshore basis. Federal Reserve restrictions on interaffiliate transactions and the higher costs of exercising expanded powers in convoluted ways make structural arbitrage an imperfect substitute for direct entry into a product market. The easier it becomes for U.S. banks to enter U.S. and foreign securities markets *as banks*, the less costly they should find it to adapt their organizations and operations to penetrate Japanese banking markets and to compete with Japanese banks in third countries.

''The downside to relaxing U.S. restrictions on bank activities comes from unrepaired weaknesses in the federal deposit insurance system. Difficulties that government deposit insurers face in trying to police innovative forms of client risk-taking mean that new activities often are able to extract large unintended subsidies from the federal deposit insurance funds. However, the solution to this problem is to fix the defects in the deposit insurance system, not to make it hard for U.S. firms to compete effectively in financial markets around the world. ...

"In conclusion, intergovernmental regulatory cooperation is fundamentally cartel behavior and subject to principal-agent conflict. In negotiating the 1988 risk-based capital agreement, many Western officials' unstated goal may arguably be described as postponing the pain of adapting their domestic regulatory schemes to the watch of successor officials. They hoped they could relieve immediate pressure for substantive change by raising book-value capital requirements for Japanese banks.

"The missing ingredient in current efforts at financial harmonization is increased accountability for individual-country financial regulators. Of course, we should not suppose that improving the quality of information about financial regulatory performance would put an end to regulatory subsidies. But economic theory does promise us that selective subsidies can be constrained by making their production more costly to those who currently benefit from their creation.

"Western financial-services firms and regulators appear to have counted on the Basle agreement and increased foreign entry into Japanese securities markets to slow down future penetration of international financial markets by Japanese banks and securities firms. Financial markets have been teaching them some useful lessons about how differently from U.S. and European regulators the markets themselves analyze an institution's unbooked earnings and net capital positions."[1]

Implications of globalization for regulation and safety

Grant Reuber

"The dominant feature of the world economy during the past three decades has been the dramatic growth and development of international financial markets...What we have in fact is a regulatory system that has never had an international perspective. Rather, it is an idiosyncratic network of national regulatory systems that evolved largely in response to domestic considerations. The gaps, disparities, and inconsistencies in international regulation have always been there. But the difficulties they create have become more pronounced during the past three decades, as a result of the dramatic transformation of international financial markets.

"The regulations in most countries have four basic objectives. One is to reinforce the safety and soundness of the system. The second is to maintain fair and reasonably high levels of competition. The third is to maintain an acceptable level of honesty and integrity in the system, along with satisfactory levels of protection for consumers and investors. The fourth is to try to harmonize activities among various agencies of different governments... However, pursuit of these objections has been overlaid by a supplementary range of objectives in each country. Among these have been industrial strategy, nationalism,...and monetary and

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fiscal policy. A major influence in all this, not to be understated, has been a variety of strong vested economic and political interests within each country.

Strengthening the machinery

"A major difficulty in trying to update and rationalize this network of national regulatory systems to form a more satisfactory international system is that the machinery for doing so is weak and dispersed. It consists largely of consensus building among governments and multilateral agencies meeting in various international groups such as the OECD and the Bank for International Settlements [BIS]. The recent extension of the GATT into the area of financial services may strengthen that process somewhat and it may also be reinforced by steps to integrate Europe by 1992...

"The most important achievement, and I call it an achievement contrary to the previous speaker,...in harmonizing national regulatory systems, has been the agreement among industrialized countries on a common set of risk-related capital requirements for banks...Of particular importance has been the application of a consistent set of capital requirements against off-balance-sheet items. As a consequence of the agreement,...the safety and soundness of the system has been strengthened and the competitive playing field has been somewhat leveled...

"In the remainder of my remarks I'd like to focus on three categories of risk and how globalization has impinged upon them. Those three categories are credit risk, position risk, and operations risk.

Credit risk

"How have the globalization of financial markets and recent regulatory changes affected credit risk? Increased international competition has resulted in a secular decline in profitability for many financial institutions. Moreover, as the pressure on profits is increased, so has the temptation to move further out along the risk curve.

"At the same time, much greater attention has been given to selling off loans as rapidly as possible...in order to increase profits from fee income. As a result, credit risk has been spread more widely throughout the system. How much this diversification has reduced risk for the system as a whole is difficult to say, since it is now much harder to determine who is bearing what risk. Moreover, the prospect of selling down loans has probably increased the willingness of institutions to take on larger and weaker loans initially. It has also increased the risks of not being able to sell off loans as expected.

"The growth in the securitization of assets and junk bonds has added further uncertainty to the system as well. Highly leveraged loans have become much more common during the past decade, promoted and supported in many instances by nonbank institutions. These nonbank institutions function within quite a different regulatory framework and in some instances may be less cautious in their credit assessments.

"Finally, as the playing field for financial services has been leveled, both domestically and internationally by market forces and deregulation, the market protection that some financial activities have enjoyed in the past has eroded. Marginally profitable activities in institutions have been squeezed, giving rise to consolidations, reorganizations, and failures—situations laden with increased risk.

"That said, it is also evident that the quality of bank assets may have improved in recent years...Many institutions have strengthened their internal controls...Loan loss provisions have been bolstered and capital reserves are stronger, particularly when one recognizes that under the BIS definitions, the off-balance-sheet commitments are included for purposes of capital requirements...But while the BIS agreement has rationalized and set minimal levels of capital resources for the large category of private risk assets, no distinctions are made among risks arising from a wide range of assets qualities. Nor is much attention given to such basic questions as diversification of assets by industry and by location.

Position risk

"Let me turn to position risk, the second major category on which I wish to focus. It arises when a firm's assets and liabilities including off-balance-sheet obligations are not fully matched as to currency and term...The globalization of financial markets has had mixed effects on position risk. By expanding markets and making them more liquid, globalization has reduced it. Moreover, a variety of instruments have been developed to hedge position risk. On the other hand, the enormous volume and speed of transactions and the cross-border integration and interdependence of institutions and markets have magnified both the impact and the speed that a problem in one national market has on others.

Operational risk

"Let me turn finally to operational risk...particularly to the risks of self-dealing and fraud...These are hardly new, but they have probably increased in recent years...In addition to the integrity of the internal control mechanisms and the quality of management of financial institutions, control of these risks has essentially relied upon regulation.

"In some countries, major financial activities, particularly banking investment underwriting and dealing, trust or fiduciary business have been separated from each other as a means of trying to limit these risks. And, in some countries...commercial and financial activities have been clearly separated for the same reason. These traditional separations are disappearing...under the impact of international market forces and reregulation. As the traditional pillars have crumbled, the risks of self-dealing and fraud have increased, and although cooperation and coordination have improved, the regulatory system within and among countries remains fragmented.

"As financial markets have become more integrated internationally, the ability of national regulators to monitor transactions moving at split second speeds through complex international daisy chains has become more difficult. Compounding the risk of self-dealing and fraud even further, are differences in attitudes, regulations, and practices found among different financial sectors and different countries. As a result, the willingness to enact and enforce stringent rules varies considerably from market to market and country to country. Because of today's highly integrated financial markets, regimes with weak standards pose a bigger problem for the system than they used to. Nor, for political reasons, can the damage caused by inadequate regulation in some foreign countries be overcome by efforts to extend extra-territorially the sounder rules and regulations of other countries.

One last risk

"In these remarks I have focussed on three categories of risk—credit risk, position risk, and operational risk. There is also another major risk to be recognized domestically and internationally. This is the risk that under the guise of safeguarding the system and making it more effective and efficient, the evolution of the regulatory system internationally will continue to be distorted in order to advance narrow nationalistic and protectionist purposes. To the extent that this occurs, less progress will be made in advancing the primary objectives of regulation—safety and soundness, competition, integrity, and consistency. In addition, the international system will fall short of developing its potential to facilitate economic growth and development."

FOOTNOTES

[1]Copies of the paper on which Mr. Kane's remarks are based are available from the Research Department, Federal Reserve Bank of Chicago, Chicago, IL 60690.