

# Shared risk concept for US banking industry

*From Mr Bert Ely.*

Sir, Your editorial, "Banking risks" (April 15), properly commends Alan Greenspan, chairman of the Federal Reserve, for concluding that increasing reliance should be placed on private market banking regulation.

As he noted, "rapidly changing technology is rendering obsolete much of the old bank examination regime".

Representative Tom Petri has introduced in the US House of Representatives legislation to enact the "cross-guarantee" concept for delegating to a private-sector, market-driven mechanism all bank safety-and-soundness regulation while privatising all deposit insurance and systemic risk.

Instead of being hobbled by sluggish, one-size-must-fit-all government regulation that fosters herd effects, each bank will negotiate a cross-guarantee contract with private-sector guarantors (largely other banks) establishing prudent banking practices to which the bank agrees, tailored to its business strategy.

The guarantors, in return for a fee, will guarantee all of the bank's funding liabilities and be able to monitor, through an independent agent, the bank's compliance with its contract.

Since guarantors will have their own capital at risk, they can be trusted to provide better regulation than can government supervisors. Systemic stability will be enhanced through rules that disperse bank insolvency risk over many guarantors.

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