

MEMO# 2702

April 19, 1991

INSTITUTE TESTIMONY ON FINANCIAL SERVICES RESTRUCTURING

April 19, 1991 TO: FEDERAL LEGISLATION MEMBERS NO. 4-91 RE: INSTITUTE TESTIMONY ON FINANCIAL SERVICES RESTRUCTURING

On April 18, the Institute testified before the Financial Institutions Supervision, Regulation and Insurance Subcommittee of the House Committee on Banking, Finance and Urban Affairs on the Administration's bill to restructure the financial services industry. In its testimony, the Institute expressed its general support of the Administration's comprehensive approach to restructuring and endorsed certain aspects of the bill: (1) A two-way competitive street, under which all banks can affiliate with securities firms and all securities firms can affiliate with banks. (2) Repeal of the restrictions of interstate banking in order to permit securities firms affiliated with banks to offer securities and banking products on a nationwide basis. (3) A requirement that banking activities and securities activities be conducted by separate subsidiaries of holding companies. (4) A requirement that securities activities conducted by these securities subsidiaries (including mutual fund activities) be subject to full SEC regulation under the federal securities laws. (5) A closure of the loophole that would let the Office of the Comptroller essentially turn bank collective investment funds into mutual funds without subjecting them to the same regulation as mutual funds. - 2 - The Institute took the opportunity to offer additional suggestions to strengthen and expand the bill's investor protection and firewall provisions. Specifically, the Institute recommended that prohibitions be added to certain types of conflict of interest transactions that can arise when a bank affiliate acts as sponsor or adviser to a fund; it also pointed out that protections should be added to prevent investor confusion and other problems that can result from the marketing of funds to the public by affiliates of insured depository institutions. The Institute also expressed support for subjecting all pooled investment funds to SEC regulation. A copy of the Institute's testimony is attached. Please call if you wish further information. We will keep you informed of further developments. This memo can also be found on FUNDS, the Institute's Fund User Network and Delivery Systems, under Legislative Affairs, Washington Update. Julie Domenick Vice President Legislative Affairs