

MEMO# 7024

June 13, 1995

INSTITUTE TESTIFIES ON FINANCIAL SERVICES REFORM

June 13, 1995 TO: BOARD OF GOVERNORS No. 55-95 FEDERAL LEGISLATION COMMITTEE
No. 19-95 FEDERAL LEGISLATION MEMBERS No. 19-95 BANK INVESTMENT MANAGEMENT
MEMBERS No. 14-95 RE: INSTITUTE TESTIFIES ON FINANCIAL SERVICES REFORM

On June 8, the Institute testified before the House Commerce Committee's Subcommittee on Telecommunications and Finance on H.R. 1062, a legislative proposal to repeal the Glass-Steagall Act and eliminate other statutory barriers between commercial banking and the securities business. Institute President Matthew Fink told the Subcommittee that while the bill would remove unnecessary legal barriers to bank mutual fund activities, and would modernize the securities laws (both of which the Institute supports), it was nonetheless seriously flawed and in its present form would place many mutual fund firms at a great disadvantage. He said "In particular, its restrictions on affiliations will bar many securities firms from entering the banking business." The Institute testified that the flaws in the bill arise from the fact that its approach is based almost entirely on concepts of bank regulation, as opposed to securities regulation, which have developed very differently from one another under the separation that was mandated by the Glass-Steagall Act. In a recent survey of the mutual fund industry conducted by the Institute, 40 percent of respondents were found to have insurance affiliates, 14 percent have real estate affiliates, and 12 percent have non-financial affiliates. Under the proposed legislation, the Institute continued, these companies would be faced with the difficult choice of either breaking up their long-standing lines of business in order to take part in combined banking and securities activities, or retaining their existing businesses and accepting a permanent disadvantage in relation to the combined firms. Banks, on the other hand, would be under no obligation to make such choices. To accommodate the differing needs of the two industries, the Institute offered the Committee several alternative approaches ranging from the elimination of all restrictions on affiliations, to deeming insurance to be a permissible activity, and at the same time allowing non-financial activities to constitute a small percentage of the assets of a financial services holding company. The Institute also objected to the bill's provision making all financial services holding companies subject to supervision by the Federal Reserve Board, a bank regulator, as extremely damaging to the securities industry. -2- This legislation is expected to reach the House floor before the July 4 recess, after having been marked up in mid-June. We will keep you informed as this matter develops. For additional information, please contact the Legislative Affairs Department at (202) 326-5890. This memo can be found on FUNDS, the Institute's Fund User Network and Delivery System, under Legislative Affairs; Washington Update." Copies of the oral and written testimony are enclosed. Julie Domenick Senior Vice President Legislative Affairs

Attachments

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