

MEMO# 8637

February 12, 1997

INSTITUTE TESTIFIES ON FINANCIAL SERVICES REFORM MEASURE

1 See Memorandum to Board of Governors No. 3-97, Federal Legislation Committee No. 1-97, and Public Information Committee No. 2-97, dated January 13, 1997. February 12, 1997 TO: BOARD OF GOVERNORS No. 6-97 FEDERAL LEGISLATION MEMBERS No. 3-97 PUBLIC INFORMATION COMMITTEE No. 4-97 RE: INSTITUTE TESTIFIES ON FINANCIAL SERVICES REFORM MEASURE

On February 11, the Institute testified before the House Banking Subcommittee on Financial Institutions and Consumer Credit regarding H.R. 268, the "Depository Institution Affiliation and Thrift Charter Conversion Act." The bill would, among other things, create financial services holding companies that would be permitted to own insurance, securities, and banking firms. The bill would provide for functional regulation of each of these entities and would create a new oversight committee the National Financial Services Committee comprised of the Treasury Secretary, the heads of all the federal banking agencies, the SEC Chairman, and a designated insurance commissioner. The legislation was introduced on January 7 by Subcommittee Chair Marge Roukema (R-NJ) and Rep. Bruce Vento (D-MN),¹ the senior Democrat on the subcommittee. The Institute testified that five basic principles should underlie any legislation to restructure the regulatory framework governing the financial services industry. Specifically, Congress should: grant banks full mutual fund powers (e.g. the ability to sponsor and underwrite mutual funds and to have bankers serve on fund boards); modernize the federal securities laws to address bank-mutual fund activities; permit banks, securities firms, insurance companies, and commercial entities to own and affiliate with each other; provide for functional regulation of each entity (bank, securities firm, insurance company, etc.) within the resulting diversified organization; and create an oversight system that protects consumers while minimizing the potential for distortion of the marketplace through inappropriate regulatory requirements. -2- The Institute testified that H.R. 268 contains important provisions that implement each of these principles and lays a firm foundation upon which Congress may build an improved financial services regulatory system. However, the Institute testified that the legislation should be revised in several ways. Specifically, the role of the National Financial Services Committee should be limited to that of a coordinating and advisory body, and should not be granted broad substantive authority that would conflict with functional regulation. The Institute also recommended revisions regarding, among other things, bank mutual fund powers and modernization of federal securities laws. Additional hearings on H.R. 268 are scheduled for February 13 and February 25. More hearings on other pieces of financial services modernization legislation are planned for March and April. House Banking Committee Chairman Jim Leach (R-IA) has said he hopes to bring a bill to the House floor by the July recess. We will keep you informed as this legislation develops. Enclosed are Subcommittee

Chair Roukema's opening statement, and the Institute's oral and written testimony.
Matthew P. Fink President Attachments (in .pdf format)

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.