

**MEMO# 1889**

May 3, 1990

## **INSTITUTE TESTIMONY ON BANK SECURITIES AFFILIATES**

May 3, 1990 TO: BOARD OF GOVERNORS NO. 35-90 RE: INSTITUTE TESTIMONY ON BANK SECURITIES AFFILIATES \_\_\_\_\_ On May 1, the Institute testified at a hearing before the Subcommittee on General Oversight and Investigations of the House Banking Committee. The subject of the hearing was the recent report of the General Accounting Office on activities of securities subsidiaries of bank holding companies that have been authorized by the Federal Reserve Board. The Institute's testimony stated that the orders of the Federal Reserve Board permitting subsidiaries to engage in certain securities activities (the "Section 20 orders") contained worthwhile elements, which should be utilized by Congress in the development of comprehensive legislation to restructure the financial services industry. Specifically, the Institute endorsed requiring securities activities to be conducted in a separate subsidiary of a bank holding company, rather than in the bank itself or a subsidiary of the bank. The Institute also supported the imposition of "firewalls" between the bank and the securities subsidiary. The Institute cautioned, however, that the power to relax firewalls should be reserved generally to Congress. The Institute also pointed out that any administrative deregulatory steps suffered from inherent limitations, which demonstrates the need for comprehensive legislation. The Institute's testimony also stressed the need for special firewalls if bank affiliates are permitted to sponsor and underwrite mutual funds. The testimony also criticized the Comptroller's recent proposal to deregulate and allow the mass-merchandising of bank common trust funds, contrasting it with the more limited approach being taken by the Federal Reserve Board. The Institute pointed out that the Comptroller's proposal contained none of the safeguards of the Section 20 orders. At the hearing, Representative Parris, the ranking minority member of the Subcommittee, expressed concern over the Comptroller's proposal and stated that he had sent to the Comptroller a list of questions on it. Copies of the Institute's written and oral statements are attached. Craig S. Tyle Associate General Counsel Attachments