The Asset Management Industry
SERVING INDIVIDUAL INVESTORS
INVESTMENT COMPANY INSTITUTE

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FINANCIAL SERVICES LEGISLATION INTRODUCED BY CHAIRMAN LEACH

January 18, 1995 TO: BANK INVESTMENT MANAGEMENT MEMBERS No. 3-95 BOARD OF GOVERNORS No. 13-95 FEDERAL LEGISLATION COMMITTEE No. 4-95 FEDERAL LEGISLATION MEMBERS No. 4-95 RE: FINANCIAL SERVICES LEGISLATION INTRODUCED BY CHAIRMAN LEACH _____ House Banking Committee Chairman Jim Leach recently introduced legislation that, among other things, would amend the Glass-Steagall Act and the Bank Holding Company Act to permit securities affiliates of bank holding companies to underwrite mutual funds. Copies of the bill, an outline of its provisions and a section-by-section analysis are attached. The significant provisions of the legislation are summarized below. I. Glass-Steagall Act and Bank Holding Company Act Amendments The legislation would repeal Section 20 of the Glass-Steagall Act to allow securities affiliates to underwrite any security, including shares of mutual funds. It also would amend Section 32 of the Glass-Steagall Act to permit banks and securities affiliates to have common officers, directors and employees. The legislation also would amend the Bank Holding Company Act: - to add a new section 4(c)(15), authorizing a bank holding company to own a securities affiliate engaged in the activities described above, subject to prior approval of the Federal Reserve Board; - to impose certain restrictions on activities of banks and their securities affiliate and on management interlocks between the securities affiliate and the bank; and - to require conspicuous disclosure that the securities offered by a bank's securities affiliate are not federally insured, that the securities affiliate is not an insured bank, and that it may be underwriting or dealing in the offered securities. II. Federal Securities Laws Amendments A. Functional Regulation The legislation generally would repeal the exemptions for banks under the Investment Advisers Act of 1940 (to the extent that the bank or bank holding company advises a registered investment company) and the Securities Exchange Act of 1934. B. Investment Company Act The legislation would amend the Investment Company Act of 1940 to address certain issues that arise when mutual funds are affiliated with banking organizations. For example, the legislation generally would prohibit a fund from borrowing from an affiliated bank or having a name similar to the bank's name except pursuant to an SEC exemption. The legislation also would amend the Securities Act of 1933, the Securities Exchange Act, and the Investment Company Act to clarify that the common trust fund exceptions under those statutes do not apply to common trust funds that advertise or impose a double-fee on their beneficiaries. III. Coordination of Examinations The legislation would require the bank agencies to use, to the extent practicable, SEC examination reports of investment companies and other regulated entities and to defer to those examinations for compliance with the federal securities laws. The bank agencies would have to defer to the SEC regarding all interpretations and enforcement of those laws. The legislation also would impose an interagency coordinating requirement regarding enforcement actions. The

legislation would make clear that the federal bank agencies may not inspect any registered investment company that is not affiliated with or advised by a bank. IV. Banking and Commerce The legislation would maintain the existingseparation of banking and commerce. * * * It is anticipated that the House Banking Committee will begin its consideration of this and related legislation early this session. Given the changes in the Congress, it is possible that this legislation will move quickly. We will keep you advised of further developments. Matthew P. Fink President Attachments

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