MEMO# 3245

December 6, 1991

CONGRESS PASSES NARROW BANKING BILL; GLASS-STEAGALL NOT REPEALED

December 6, 1991 TO: BOARD OF GOVERNORS NO. 85-91 RE: CONGRESS PASSES NARROW BANKING BILL; GLASS-STEAGALL NOT REPEALED ____ Last week, both Houses of Congress passed and sent to the President a narrow banking bill that recapitalizes the Bank Insurance Fund and makes certain changes to the deposit insurance system and other bank regulations. The bill does not repeal the Glass-Steagall Act or include any provisions concerning securities powers for banks. Actions in Congress In floor activity that spanned two weeks, the House of Representatives voted against legislation that repealed the Glass-Steagall Act and voted down narrower legislation that provided for, among other things, interstate banking, but which did not include any provisions granting banks securities powers. Finally, on November 21, the House voted to approve a very narrow bill that principally addressed deposit insurance issues, but which did not address either Glass-Steagall repeal or interstate banking. At the same time, the Senate voted to strip its banking legislation of most provisions concerning bank securities activities. The bill originally passed by the Senate was broader than the legislation approved by the House and included a compromise on interstate banking. However, these and remaining securities-related provisions were dropped in the House-Senate conference, leaving a bill nearly identical to the legislation approved by the House. Summary of Legislation As finally passed, the banking bill authorizes the Bank Insurance Fund to borrow $30 billion from the U.S. Treasury and authorizes borrowings from Federal Financing Bank. The bill also makes various reforms to bank supervision, including increased auditing requirements and required prompt corrective actions in the case of undercapitalized institutions. In addition, the FDIC would be required to use a "least-cost" method in resolving failing institutions in most instances. Other provisions of interest include the following: Truth-in-Savings. The legislation includes the "Truth in Savings Act", which would require depository institutions to make uniform disclosures concerning interest rates payable and fees assessable on deposit accounts. Earlier versions of the Truth in Savings Act would have required the SEC and the Federal Reserve Board to consult annually to determine whether the SEC's mutual fund advertising regulations and those established under the Truth in Savings Act provided comparable information to consumers. This provision was dropped from the final bill. Brokered Deposits. The bill places further restrictions on brokered deposits, by limiting them to highly-capitalized institutions. The FDIC could grant waivers to allow other institutions that meet minimum capital standards to accept brokered deposits; however, interest on these deposits would be limited. Lampf case. The bill makes the Supreme Court's Lampf decision (which established a uniform statute of limitations for cases brought under Section 10(b) of the Securities Exchange Act of 1934) non-retroactive. Thus, any such securities fraud cases that were commenced before the Lampf decision can proceed or (if

dismissed) be reinstated if they would have been considered timely filed under the statute of limitations in effect at the time the suit was originally brought. However, the bill does not extend the statute of limitations established in Lampf for cases commenced after the Supreme Court decision. Powers of State Banks. The bill generally prohibits insured state banks from engaging as principal in any activity not permitted for national banks, unless the FDIC determines that the activity poses no significant risk and the bank is in compliance with applicable capital requirements. (This provision becomes effective in one year) However, a provision that would have expressly prohibited insured state banks from underwriting securities was dropped. * * * At this point, it is uncertain whether there will be serious legislative efforts in 1992 to repeal or modify the Glass-Steagall Act. Similarly, it is uncertain whether the bank regulatory agencies will renew their efforts to modify the prohibitions of the Glass-Steagall Act though administrative action. Matthew P. Fink
President
