

**MEMO# 9007**

June 24, 1997

# **HOUSE BANKING COMMITTEE REPORTS FINANCIAL SERVICES MODERNIZATION BILL**

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. June 24, 1997  
TO: BOARD OF GOVERNORS No. 39-97 FEDERAL LEGISLATION MEMBERS No. 10-97  
PRIMARY CONTACTS - MEMBER COMPLEX No. 41-97 PUBLIC INFORMATION COMMITTEE No. 21-97 RE: HOUSE BANKING COMMITTEE REPORTS FINANCIAL SERVICES MODERNIZATION BILL \_\_\_\_\_ On June 20, the House Banking and Financial Services Committee approved H.R. 10, the "Financial Services Competitiveness Act of 1997," by a margin of 28-26. As reported, the legislation differs significantly from the bill originally introduced by Banking Committee Chairman James Leach (R-IA) in January.<sup>1</sup> The bill will now be referred to the House Commerce Committee for its consideration before proceeding to the House floor. Permissible Financial and Commercial Activities Provisions in the bill allow for the creation of qualified bank holding companies, and a two-way street that allows a limited mix of banking and commercial activities. In sum, the bill provides that: Banking, insurance, and securities firms may affiliate under a "qualified bank holding company," subject to umbrella regulation by the Federal Reserve Board. Qualified bank holding companies would be allowed to own an interest in a commercial, nonfinancial firm, so long as that firm generates less than 15 percent of the holding company's gross domestic revenues. A cutoff level would prohibit a qualified bank holding company from acquiring any commercial firm with consolidated assets exceeding \$750 million, effectively precluding acquisition of the top 1,000 commercial firms. Nonfinancial, commercial firms would be permitted to acquire, within a holding company, one bank, provided the bank's gross revenues do not exceed 15 percent of the commercial firms' consolidated U.S. gross revenues and the bank's total consolidated assets do not exceed \$500 million (effectively prohibiting acquisition of the top 1,500 banks). No umbrella regulator would govern these commercial entities. Federal thrift charters would be converted to national bank charters over a five-year period; grandfathering provisions cover existing unitary thrift holding companies. Regulation of Holding Companies H.R. 10 would create a National Financial Services Council (NFSC) to oversee the regulation of new qualified bank holding companies. The NFSC would work in conjunction with the Federal Reserve Board to determine whether a new product is a banking or insurance product; the Federal Reserve Board would conduct the initial product review to screen out "frivolous" applications. The NFSC would be comprised of the heads of the Federal Reserve Board, the Treasury Department, the Office of the Comptroller of the Currency, the FDIC, the SEC, and others, including a state securities regulator and a state banking regulator. Furthermore, the NFSC would designate the primary functional regulator

by industry (i.e., the SEC would regulate securities affiliates). However, all qualified bank holding companies created under this legislation would ultimately be subject to Federal Reserve Board oversight, which could potentially extend to holding company capital requirements, examination, and enforcement. The NFSC, in conjunction with the Federal Reserve Board, would also have restricted authority to designate financial and nonfinancial activities, which could impact the size and nature of the commercial baskets. However, it is the committee's intent that the Federal Reserve Board regulation would not extend to the day-to-day operations of affiliates regulated by other federal or state agencies. Regulation of Securities Transactions As amended, H.R. 10 would require all persons involved in retail sales of securities to be covered under the same securities laws and regulations. It is expected that this provision will allow the SEC to issue rules governing previously-exempted bank securities employees. Enforcement of this provision among bank employees, however, would remain with bank regulators. Disclosure Requirements and Other Consumer Issues The bill includes several consumer-focused provisions that would, among other things, require disclosure of whether a product is FDIC-insured, establish suitability requirements, limit cross-marketing, and call for the physical segregation of banking and non-banking activities. These provisions would apply to all non-deposit retail products sold by or within a depository institution. In addition, the bill stipulates that qualified bank holding companies may only acquire depository institutions with a "satisfactory" record in providing so-called "lifeline" depository accounts to low-income consumers. H.R. 10 would also create an Advisory Council on Community Revitalization that would make non-binding recommendations to the NFSC and Congress for enhancing access to capital, credit, and insurance for citizens in communities of diverse economic composition. As noted above, H.R. 10 will now be referred to the House Commerce Committee, which shares jurisdiction over the issue. We will keep you informed as developments occur. Matthew P. Fink President