

MEMO# 10589

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HOUSE BANKING COMMITTEE CHAIR'S VIEW ON FINANCIAL MODERNIZATION IN 1999

[10589] December 21, 1998 TO: BOARD OF GOVERNORS No. 83-98 FEDERAL LEGISLATION MEMBERS No. 32-98 PRIMARY CONTACTS - MEMBER COMPLEX No. 118-98 PUBLIC INFORMATION COMMITTEE No. 60-98 RE: HOUSE BANKING COMMITTEE CHAIR'S VIEW ON FINANCIAL MODERNIZATION IN 1999

In a recent speech before the Illinois Bankers Association, House Banking Committee Chairman James Leach (R-IA) said that financial services modernization will be his top legislative priority in the 106th Congress. "The rationale for Congress to enact financial services modernization legislation relates to two goals: to level the competitive playing field for banks of all sizes and to allow, in particular, Main Street institutions to compete more effectively for customers with Wall Street power houses. Accordingly, it will be my intent in the 106th Congress, as it was in the 104th and 105th, to make bank modernization the top priority of the House Banking Committee" (see page 1). Attached is a copy of the speech. Of particular interest to the investment company industry were Leach's comments on two issues that will continue to dominate the modernization debate—the federal regulatory structure and the mix of banking and commerce. Functional Regulation Chairman Leach said the regulatory structure of the financial modernization effort will be among the most important issues under review. He noted the significant progress made among industry participants earlier this year, but added, "while the issues between and within private sector groupings appear to be credibly resolved with regard to financial modernization, the competition within the government for regulatory control has perhaps stiffened." Leach also said the recent problems of Long-Term Capital Management will encourage lawmakers to carefully scrutinize the federal regulatory structure. "With regard to the implications for H.R. 10," he said, "the lessons would appear self-evident: it is more prudent to have activities of this nature in a separately organized, functionally-regulated affiliate, rather than within the bank itself." (See page 3.) Banking and Commerce Chairman Leach also made it clear that he remains opposed to mixing banking and commerce, an idea that was originally included in H.R. 10, the financial reform bill, but was ultimately dropped. "It is one thing to bring more competition to consumers through allowing banks, insurance companies and securities firms to actively compete with each others' products and quite another to allow banks to use part of their asset base to invest in, rather than loan to, commercial companies." He continued, "conflicts of interest are likely to become the order of the day in finance, the deposit insurance safety net is likely to be jeopardized, and concentration of ownership of commercial assets is likely to accelerate if the wall between commerce and banking is breached." (See page 4.) Disintermediation Finally, Chairman

Leach encouraged the banking community to actively support financial modernization efforts in the next Congress. Several times he noted that banks and thrifts today hold a 28 percent financial services market share, less than half of the share they held in the 1970s. He warned, "Bankers have every reason to be apprehensive about legislative change, but they should be downright fearful about maintaining the status quo." (See page 6.) We will keep you informed of further developments. Matthew P. Fink President Attachment

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