

MEMO# 4815

May 24, 1993

HOUSE BANKING COMMITTEE CHAIR ORDERS GAO STUDY OF EFFECT OF MUTUAL FUNDS ON BANKING SYSTEM

May 24, 1993 TO: BOARD OF GOVERNORS NO. 49-93 BANK INVESTMENT MANAGEMENT
MEMBERS NO. 11-93 RE: HOUSE BANKING COMMITTEE CHAIR ORDERS GAO STUDY OF
EFFECT OF MUTUAL FUNDS ON BANKING SYSTEM

_____ Henry Gonzalez, Chairman of the House Banking Committee, has requested the General Accounting Office to conduct a study of how the growth of the mutual fund industry is affecting the banking system. A copy of the Chairman's letter to the GAO and accompanying press release is attached. The request covers several areas of inquiry. First, it seeks information on the relative performance and sales compensation arrangements for bank-advised mutual funds, third party mutual funds sold by banks, and other mutual funds. The request also seeks information on the impact of the shift from insured deposits into mutual funds on the assessment income of the FDIC. It also requests an evaluation of the effect of this shift on credit availability, noting that, "Mutual funds do not make residential, consumer, or commercial loans." The letter asserts that mutual funds "are not subject to the type of comprehensive regulation imposed on banks and thrifts" and requests a comparison of the regulatory structures applied to insured depositories and registered investment companies, as well as an evaluation of the regulation of bank-affiliated mutual funds by federal banking agencies, information on SEC examinations of mutual funds, and an analysis of the regulations applicable to certain types of transactions involving mutual funds and banks. The letter also requests a comparison of the Truth-in-Savings Act with provisions of the federal securities laws governing disclosures by mutual funds and the adequacy of SEC disclosure requirements governing the risk of loss of principal for investments in mutual funds. Matthew P. Fink President Attachment