

MEMO# 11053

June 15, 1999

HOUSE COMMERCE COMMITTEE APPROVES FINANCIAL SERVICES REFORM LEGISLATION

[11053] June 15, 1999 TO: BOARD OF GOVERNORS No. 42-99 FEDERAL LEGISLATION MEMBERS No. 17-99 PRIMARY CONTACTS - MEMBER COMPLEX No. 63-99 PUBLIC INFORMATION COMMITTEE No. 28-99 RE: HOUSE COMMERCE COMMITTEE APPROVES FINANCIAL SERVICES REFORM LEGISLATION

The House Commerce Committee passed H.R. 10, the "Financial Services Act of 1999" on June 10. The bill repeals the Glass-Steagall Act's restrictions on bank and securities firm affiliations and amends the Bank Holding Company Act to permit affiliations among financial services companies, including banks, registered investment companies, securities firms and insurance companies. Overall, the markup of H.R. 10 went as expected; however, the committee approved a controversial change regarding the privacy of consumer information. The provisions that have the greatest effect on the investment company industry are summarized below. Holding Company Regulation H.R. 10 utilizes functional regulation to govern the entities in a newly created bank holding company structure. The legislation designates the Federal Reserve Board as the "umbrella" regulator of the bank holding companies, but also requires the Federal Reserve Board and other bank regulators — the Federal Deposit Insurance Corporation, the Office of Thrift Supervision and the Comptroller of the Currency — to defer to the authority of the SEC when interpreting and enforcing the federal securities laws. The bill clarifies the bank regulators' ability to impose banking regulation on investment companies and other entities. Exceptions exist to permit bank regulators to address bank safety and soundness, payment system or deposit insurance concerns. Community Reinvestment Act (CRA) The bill contains no provisions to extend the CRA to investment companies or other non-bank entities. The committee approved an amendment that directs the Treasury secretary to conduct a study of the extent to which banks provide adequate services to low- and moderate-income communities as intended by the CRA. Privacy In a very controversial development, H.R. 10 requires financial firms to adopt a privacy policy and disclose the details of the policy to customers. The committee approved an "opt out" provision that requires financial institutions to give customers an opportunity to prevent the sharing or sale of their 1 See Memorandum to the Board of Governors No. 22-99, Federal Legislation Members No. 9-99, Primary Contacts - Member Complex No. 33-99, Public Information Committee No. 11-99. 2 See Memorandum to the Board of Governors No. 36-99, Federal Legislation Members No. 16-99, Primary Contacts - Member Complex No. 54-99, Public Information Committee No. 24-99. personal information with affiliates or third parties. The committee also amended the bill to restrict disclosure of

medical information by insurance companies without customer approval. The Federal Trade Commission would issue and regulate the privacy policy rules. Commercial Baskets The bill prohibits bank holding companies from directly engaging in commercial activities, but would give the Federal Reserve Board, in conjunction with the Treasury, flexibility to define permissible, "complementary" activities to supplement the definition of "financial in nature" — that is, the term that defines permissible activities undertaken by a bank holding company. Unitary Thrifts H.R. 10 prohibits companies engaged in commercial activities from owning a single or "unitary" thrift. However, the bill includes a grandfather clause allowing commercial companies that currently own a thrift or have applications pending as of May 31, 1999 to continue operations. H.R. 10 also bars the sale and transfer of thrifts owned by commercial companies to any other company that engages in commercial activities. * * * * * In the next few weeks, the House Rules Committee will consider H.R. 10 and reconcile the House Commerce and House Banking¹ Committees' versions, prior to consideration of H.R. 10 by the full House of Representatives. The Senate passed its version of financial services reform² (S. 900) in May. We will keep you informed of further developments. Matthew P. Fink President

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