

MEMO# 8889

May 15, 1997

INSTITUTE TESTIFIES ON CHAIRMAN LEACH'S FINANCIAL REFORM PROPOSAL

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. 2 See Memorandum to Board of Governors No. 6-97, Federal Legislation Members No. 3-97, and Public Information Committee No. 4-97, dated February 12, 1997. May 15, 1997 TO: BOARD OF GOVERNORS No. 31-97 FEDERAL LEGISLATION MEMBERS No. 7-97 PUBLIC INFORMATION COMMITTEE No. 14-97 RE: INSTITUTE TESTIFIES ON CHAIRMAN LEACH'S FINANCIAL SERVICES REFORM PROPOSAL

On May 14, the Institute testified before the House Banking and Financial Services Committee regarding H.R. 10, the "Financial Services Competitiveness Act of 1997." H.R. 10 was introduced by House Banking Committee Chairman James Leach (R-IA) on January 7, 1997.¹ The Institute testified in favor of financial services reform, but in opposition to the provision of the bill that would give residual regulatory authority over all companies within a financial services holding company to the Federal Reserve Board as the umbrella regulator. H.R. 10 would also, among other things, permit the affiliation of banks, securities firms, insurance companies, and other financial institutions; permit banks, securities companies, and insurance companies to establish Wholesale Financial Institutions to engage in limited nonfinancial activities; and put into statute an OCC rule issued earlier this year to expand permissible securities (and other) activities for national bank operating subsidiaries. Consistent with past testimony,² the Institute stated that five basic principles should underlie financial services reform legislation. Specifically, Congress should: grant banks full mutual fund powers (e.g. the ability to sponsor and underwrite mutual funds and to have bankers serve on fund boards); modernize the federal securities laws to address bank mutual fund activities; permit the affiliation of banks, securities firms, insurance companies, and commercial companies; provide for functional regulation of each entity (bank, securities firm, insurance company, etc.); and create an appropriate oversight system for the new diversified financial services organizations that maximizes the public interest in protecting financial services consumers, while minimizing the potential for distortion of the marketplace. -2- The House Banking Committee has scheduled additional hearings for late May and early June. Chairman Leach has indicated that he hopes to bring a bill to the Committee for approval by the end of June. In addition, the House Commerce Committee which shares jurisdiction over financial services modernization issues is currently holding a series of Subcommittee hearings on financial services reform proposals. We will keep you informed as this legislation proceeds. Enclosed is the Institute's written testimony. Matthew P. Fink President Attachment

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