

**MEMO# 5812**

April 25, 1994

## **BANK-LIKE REGULATION OF MUTUAL FUNDS**

April 25, 1994 TO: BOARD OF GOVERNORS NO. 35-94 RE: BANK-LIKE REGULATION OF MUTUAL FUNDS \_\_\_\_\_ In an earlier memo (See Institute Memo to Board of Governors No. 32-94, dated April 15, 1994), we reported on the April 14 hearing on functional regulation legislation before the House Telecommunications and Finance Subcommittee. At the hearing banking regulators, in contrast to Institute and SEC witnesses, argued against regulation by the SEC of bank securities activities. More importantly, the bank regulators, argued for extensive authority to regulate not only securities activities of banks, but also to regulate "depository activities" of nondepositories. Both, Comptroller of the Currency Ludwig and FRB Governor John LaWare, cited cash management accounts, savings accounts in the form of mutual fund shares, and access to the FRB discount window as appropriate regulatory opportunities. Additionally, Mr. Ludwig noted the absence of reserve requirements on securities firms transaction accounts and the lack of applicability of social- responsibility laws as competitive advantages enjoyed by mutual funds and securities firms. Both Messrs. Ludwig and LaWare also objected to any legislation that does not propose a broad, comprehensive approach that permits banking organizations to engage in the full range of securities activities that nonbank firms may conduct and that provides exceptions from SEC regulation so as not to curtail certain traditional bank securities activities. Statements of Messrs. Ludwig and LaWare are attached. We will keep you informed as this matter develops. Matthew P. Fink Attachments