

**MEMO# 4755**

May 4, 1993

# **LETTER TO WHITE HOUSE FROM ASSOCIATION OF BANK HOLDING COMPANIES AND INSTITUTE RESPONSE**

May 4, 1993 TO: BOARD OF GOVERNORS NO. 42-93 RE: LETTER TO WHITE HOUSE FROM  
ASSOCIATION OF BANK HOLDING COMPANIES AND INSTITUTE RESPONSE

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Thomas L. Ashley, President of the Association of Bank Holding Companies, recently suggested in a letter to Robert E. Rubin, Assistant to the President for Economic Policy, that the Administration review "the nation's entire financial infrastructure" to identify "impediments to the efficient functioning of financial markets and the institutions that serve those markets." The ABHC recommended that the review encompass all financial service providers rather than focusing exclusively on depository institutions, and stated: it is now obvious that risk is fungible --for example, billion of dollars have flowed out of insured depository institutions into non-insured mutual funds, a process that has not reduced government risk exposure but simply changed its locus to non-insured intermediaries. Instead of the FDIC being principally at risk as the guarantor of transaction accounts, now the Federal Reserve System, through its lender of last resort function, is becoming the implicit Federal guarantor for billions of dollars in consumer deposits (defined as share purchases for legal reasons). The Institute responded to Mr. Rubin in a letter which agreed that there is a need for a comprehensive review of the financial services industry. However, the Institute recommended that the review focus not only on ways to improve efficiency, but also on consumer protection, noting that bank entry into the securities business has created the need to extend the consumer protection provisions of the securities laws to bank securities activities. The Institute's letter also disputed Mr. Ashley's assertion that the Federal Reserve Board has become the implicit federal guarantor for mutual funds, noting that mutual fund shares go down as well as up, that the Federal Reserve Board has never intervened to prevent a decline nor been asked to do so, that federal regulatory agencies, including the Federal Reserve Board and the SEC expressly prohibit banks and mutual funds from stating or implying that mutual funds carry a federal guarantee, and that banks regularly market their certificates of deposit on the basis that they, unlike mutual funds, carry a federal guarantee. Copies of the ABHC's and Institute's letters to Mr. Rubin are attached. Matthew P. Fink President Attachments