

MEMO# 982

February 14, 1989

DODD "FINANCIAL MODERNIZATION AND SAFE BANK ACT"

February 14, 1989 TO: BOARD OF GOVERNORS NO. 8-89 FEDERAL LEGISLATION
COMMITTEE NO. 1-89 FEDERAL LEGISLATION MEMBERS NO. 2-89 RE: DODD "FINANCIAL
MODERNIZATION AND SAFE BANK ACT"

Senate Securities Subcommittee
Chairman Christopher Dodd (D-Conn) has introduced S.308, the "Financial Modernization and Safe Bank Act." The bill parallels the Senate-passed Proxmire bill of last session, but because of concerns about the regulatory and competitive results of the Proxmire bill, S.308 adds a new title to the Proxmire bill. The new title provides for the establishment of a "safe bank" as a requisite to the exercise by a bank holding company of expanded securities or other powers. S.308 proposes that a "safe bank" is one that invests its deposits generally in U.S. Government and obligations guaranteed by the U.S. Government. Dodd's bill is modeled from the work of Robert Litan of the Brookings Institution and others. Chairman Dodd considers the approach to be "...a true two-way street--one which would not only permit safe banks into other businesses but would also permit nonbanking businesses to enter the banking business if they agreed to convert the bank to a safe bank--it would permit the maximum amount of competition." A copy of Chairman Dodd's Congressional Record statement is attached. If you have any questions, please do not hesitate to call. Julie Domenick Doerr Vice President-Legislative Affairs Attachment

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