The Asset Management Industry
SERVING INDIVIDUAL INVESTORS
INVESTMENT COMPANY INSTITUTE

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CONFERENCE COMMITTEE REACHES HISTORIC AGREEMENT ON FINANCIAL SERVICES REFORM LEGISLATION

1 See Memorandum to Board Of Governors No. 45-99, Federal Legislation Members No. 18-99, Primary Contacts - Member Complex No. 68-99 and Public Information Committee No. 31-99 dated July 9, 1999.2 See Memorandum to Board Of Governors No. 36-99, Federal Legislation Members No. 16-99, Primary Contacts - Member Complex No. 54-99 and Public Information Committee No. 24-99 dated May 19, 1999. [11353] October 27, 1999 TO: BOARD OF GOVERNORS No. 65-99 FEDERAL LEGISLATION MEMBERS No. 23-99 PRIMARY CONTACTS - MEMBER COMPLEX No. 95-99 PUBLIC INFORMATION COMMITTEE No. 44-99 RE: CONFERENCE COMMITTEE REACHES HISTORIC AGREEMENT ON FINANCIAL SERVICES REFORM LEGISLATION

_____ On October 22, the Congressional Conference Committee on S. 900 announced an agreement in principle on the “Gramm-Leach Financial Modernization Act.” The agreement represents historic progress for financial modernization legislation, which has been considered in Congress for more than 20 years, but never has advanced this far in the legislative process. The Conference Committee is expected to officially report S. 900 this week; the bill is expected to reach the House and Senate floors for a final vote and be sent to the president this week. S. 900 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. It also imposes privacy requirements and disclosure obligations on all financial firms, even if they are not affiliated with a bank or thrift. The conference reported bill resolved the differences between the House1 and Senate2 approved versions of financial services reform legislation. The provisions in the bill that have the greatest effect on the investment company industry are summarized below. Holding Company Regulation S. 900 utilizes functional regulation to govern the entities in a newly created bank holding company structure. The legislation designates the Federal Reserve Board (FRB) as the “umbrella” regulator of bank holding companies and requires the FRB and other bank regulators — the Federal Deposit Insurance Corporation, the Office of Thrift Supervision and 2the Comptroller of the Currency — to defer to the SEC as the appropriate functional regulator of investment companies, investment advisers and securities companies. The bill delineates the bank regulators’ ability to regulate investment companies and other entities. Specifically, bank regulators are permitted to address concerns involving an investment company or other entity only if they represent a material risk to an affiliated bank, the deposit insurance funds or the payment system. Privacy S. 900 requires financial firms to adopt a privacy policy and disclose the details of the policy

to customers. For mutual funds, the SEC will regulate the content of the privacy policy and its format for disclosure. The bill requires financial firms to give customers an opportunity to “opt out” or prevent the sharing or sale of their personal information to unaffiliated third parties. Financial firms, however, are not required to provide an “opt out” if the sharing of customer information with an unaffiliated third party is part of the ordinary course of providing a financial service or product. However, the committee adopted an amendment that sets the S. 900 privacy provisions as a floor, allowing states to preempt the standards in S. 900 if the states enact more stringent standards. Investment Company Act and Investment Advisers Act The conference agreement contains amendments to the Investment Company Act and the Investment Advisers Act that are necessary to effectuate the functional regulation principles of S. 900, and to accommodate the full entry of banks into the mutual fund business. The amendments address certain unique issues that arise when banks act as advisers or provide other services to mutual funds. Commercial Baskets and Investments The bill prohibits bank holding companies from engaging in commercial activities, but would provide the FRB flexibility to authorize permissible, “complementary” activities to supplement the permissible financial activities undertaken by a bank holding company. It also allows a bank holding company to make significant investments in commercial companies for capital appreciation purposes, provided that the bank holding company does not control or operate the investee company. Unitary Thrifts S. 900 includes a grandfather clause allowing commercial companies that currently own a single or "unitary" thrift or have applications pending as of May 4, 1999 to acquire or establish such a thrift to continue operations. Otherwise, the bill prohibits companies engaged in commercial activities from acquiring or establishing a thrift. 3Community Reinvestment Act The bill contains no provisions to extend the CRA to investment companies or other non-bank entities. * * * * * This historic legislation reflects what has been more than 20 years of work by the Institute and its members. I would like to thank the many Institute members who participated in this longstanding effort. We will advise you of the final vote by Congress and the president’s action. Matthew P. Fink President Attachment

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