

MEMO# 10044

June 22, 1998

INSTITUTE TESTIFIES BEFORE SENATE BANKING COMMITTEE ON FINANCIAL MODERNIZATION LEGISLATION

1 See Memorandum to Board of Governors No. 35-98, Federal Legislation Members No. 10-98, Primary Contacts - Member Complex No. 43-98 and Public Information Committee No. 19-98, dated May 22, 1998. [10044] June 22, 1998 TO: BOARD OF GOVERNORS No. 41-98 FEDERAL LEGISLATION MEMBERS No. 13-98 PRIMARY CONTACTS - MEMBER COMPLEX No. 55-98 PUBLIC INFORMATION COMMITTEE No. 25-98 RE: INSTITUTE TESTIFIES BEFORE SENATE BANKING COMMITTEE ON FINANCIAL MODERNIZATION LEGISLATION

On June 18, the Institute testified before the Senate Banking, Housing, and Urban Affairs Committee regarding H.R. 10, the "Financial Services Act of 1998." Following House approval of the bill on May 13,¹ Senate Banking Committee Chairman Alfonse D'Amato (R-NY) announced four hearings to review the legislation, and has indicated that he will make every effort to enact financial services modernization legislation before the end of the Congress. On June 17, the committee heard from Federal Reserve Board Chairman Alan Greenspan and Treasury Secretary Robert Rubin; on June 18, representatives of the mutual fund, securities, insurance and banking industries testified on the bill. Additional hearings are scheduled for June 24 and 25. In its testimony (which is attached), the Institute reiterated its support for financial services modernization legislation, but stated that H.R. 10 requires additional modification. In particular, the Institute recommended that H.R. 10: clarify and tighten the proposed role of the Federal Reserve Board as umbrella regulator of the new diversified financial holding companies; provide for true functional regulation that recognizes the differences between bank regulation and mutual fund regulation; and recognize the reality of the evolving financial services marketplace and permit mutual fund companies and other securities firms to continue to engage, to some extent, in nonfinancial activities. Importantly, the Institute urged the committee to "make it explicit that the Board is not authorized to impose bank-type regulation on mutual funds, securities firms and insurance companies. It is essential to the continued vitality of the capital formation process that day-to-day regulation of mutual funds, securities firms and insurance companies be overseen on the basis of strict and true functional regulation." At the hearing, Chairman D'Amato said that he will not support an extension of the Community Reinvestment Act (CRA) to institutions not currently covered. He also said that any attempt to significantly change existing CRA coverage—either to expand or reduce it—would make passage of H.R. 10 virtually impossible. As approved by the House, H.R. 10 would require the Treasury Department and the SEC to study the extent to which the enactment of the bill would affect the provision of services by CRA-covered institutions. The study would not cover mutual funds, securities firms or insurance companies. Although Congress has fewer than 40

legislative days remaining in the session, the bill could continue to progress with strong support from the Senate and House leadership. In his opening remarks at the June 17 hearing Chairman D'Amato said, "Against the backdrop of rapid change in the financial marketplace, the House action on H.R. 10 provides a powerful incentive for us to identify and resolve any remaining issues and try and enact a bill this year." The Institute will continue to work with congressional leaders to produce final legislation. We will keep you informed of further developments. Matthew P. Fink President Attachments

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.