

MEMO# 8552

January 13, 1997

FINANCIAL SERVICES REFORM LEGISLATION

January 13, 1997 TO: BOARD OF GOVERNORS No. 3-97 FEDERAL LEGISLATION COMMITTEE
No. 1-97 PUBLIC INFORMATION COMMITTEE No. 2-97 RE: FINANCIAL SERVICES REFORM
LEGISLATION

As expected, House Banking Committee Chair James Leach (R-IA) introduced financial services modernization legislation on January 7, 1997. The new bill, H.R. 10, is called the "Financial Services Competitiveness Act of 1997" and among other things, would: permit the affiliation of banks, securities firms, insurance companies and other financial institutions; permit banks, securities companies, and insurance companies to establish Wholesale Financial Institutions to engage in limited nonfinancial activities; put into statute a recently approved OCC rule to expand permissible activities (including securities activities) for operating subsidiaries of national banks; vest overall regulatory authority in the financial services holding companies created by the legislation in the Federal Reserve Board; Also on January 7, House Financial Institutions Subcommittee Chair Marge Roukema (R-NJ), along with Rep. Bruce Vento (D-MN), introduced a separate financial services modernization bill, H.R. 268. Called "The Depository Institution Affiliation and Thrift Charter Conversion Act of 1997," H.R. 268 would: create financial services holding companies to allow affiliations between insurance, securities and banking. These financial services holding companies would be allowed to conduct up to 25% of their business activities in the non "financial" sector; provide for functional regulation and oversight of financial services holding companies by a National Financial Services Committee that would be chaired by the Secretary of the Treasury. The regulatory and oversight powers granted to this Committee would be based on the holding company risk assessment model currently applicable to broker-dealer holding companies. Of particular importance to the mutual fund industry is the regulatory scheme for the newly created financial services holding companies. Under H.R. 268, the bank regulatory agencies that are part of the National Financial Services Committee could only, except in extraordinary circumstances, seek information concerning securities affiliates of banks -2- through the banks they regulate. On the other hand, the Leach bill, H.R. 10, gives residual regulatory authority over all complexes within a financial services holding company to the Federal Reserve Board. Hearings on the legislation may occur as early as mid-February. Attached are the section-by-section analysis for each bill as well as press statements by each Member. We will keep you informed as this matter moves forward. Matthew P. Fink President Attachments (in .pdf format) Note: If you wish to obtain a copy of the actual legislation referred to in this memo, please call the Institute's Resource Center at (202)326-8304.

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