

**MEMO# 1873**

May 7, 1990

## **INSTITUTE TESTIMONY ON FINANCIAL SERVICES INDUSTRY MODERNIZATION**

May 7, 1990 TO: FEDERAL LEGISLATION MEMBERS NO. 6-90 FEDERAL LEGISLATION COMMITTEE NO. 4-90 RE: INSTITUTE TESTIMONY ON FINANCIAL SERVICES INDUSTRY MODERNIZATION \_\_\_\_\_ In testimony before the Senate Banking Committee, the Institute endorsed the need for legislation to restructure the financial services industry. The testimony reflected the resolution adopted by the Institute's Board of Governors in January which favored a new legislative approach in this area. The Institute endorsed an affirmative legislative proposal for two reasons. The first is a recognition that new technologies and innovations have increasingly blurred traditional distinctions between banking and securities. Not only does this lead to the conclusion that both banks and securities firms should, with proper safeguards, be allowed to compete directly with each other in all aspects of the financial services industry, it also requires that our regulatory structure be realigned in order to provide for effective functional regulation. Second, in the face of ad hoc administrative deregulation, it is necessary that comprehensive reform--encompassing deposit insurance, consumer protection and competitive fairness--be undertaken by the Congress. The Institute endorsed an approach which combines a broad view of permissible activities with strict standards for the use of federally insured deposits. - 2 - The four principles embodied in the proposal are: 1. the need for competitive fairness or, in other words, a "two-way street"; 2. the protection of the federal deposit insurance system; 3. corresponding changes to the regulatory structure that will oversee any new system; and 4. Finally, firewalls which protect bank-affiliated mutual funds and their shareholders from conflicts of interest and other possible abuses arising from bank sponsorship of mutual funds. The testimony is attached. We will keep you informed as this matter progresses. Julie Domenick Vice President-Legislative Affairs Attachment