

MEMO# 6630

February 6, 1995

D'AMATO LEGISLATION ON FINANCIAL SERVICES REFORM

February 6, 1995 TO: BOARD OF GOVERNORS No. 19-95 FEDERAL LEGISLATION COMMITTEE
No. 7-95 FEDERAL LEGISLATION MEMBERS No. 7-95 RE: D'AMATO LEGISLATION ON
FINANCIAL SERVICES REFORM

On February 2, Senate Banking Committee Chairman Alfonse D'Amato (R-NY) introduced his sweeping financial services restructuring bill, S.337, "The Depository Institution Affiliation Act." The bill authorizes the creation of a Financial Services Holding Company (FSHC), a new type of corporate structure which could own commercial banks, securities firms, insurers and commercial and industrial companies. The D'Amato bill is similar to the 1991 Bush White House bill and to legislation D'Amato co-sponsored with former Banking Committee Member Alan Cranston. The Institute, for the most part, supported the principles embodied in the earlier legislation. Broadly speaking, under the D'Amato bill, FSHC activities would be required to be conducted through separately capitalized subsidiaries, which would be regulated along functional lines. (The securities affiliate would be regulated by the SEC.) The legislation would require that securities activities, insurance underwriting, and real estate development be conducted in holding company affiliates, rather than in bank subsidiaries, in order to protect insured deposits. Affiliate transactions would generally be held to the arms-length standards set out in sections 23A and 23B of the Federal Reserve Act, and any insured depository that is controlled by a FSHC would be subject to capitalization standards. Like earlier bills, the D'Amato bill would create a Financial Services Oversight Committee made up of financial regulatory agencies, including the SEC, to help ensure streamlined and uniform regulations. Chairman D'Amato has indicated that financial services reform will be a priority for the Banking Committee. Depending on the disposition of other (primarily Whitewater-related) matters, hearings on the D'Amato bill may start soon. While there is support in the House Banking Committee (Richard Baker (R-LA) Chairman of the new Capital Markets, Securities, and Government Sponsored Enterprises Subcommittee expects to introduce a similar bill), it is clear that House consideration of the D'Amato/Baker approach will be controversial. Full Committee Chairman Leach has historically opposed eliminating the banking/commerce barrier, and, as importantly, has announced that financial services reform legislation will be considered at the full Committee level. The latter will affect Baker's ability to act as Subcommittee chair. - 2 - We will keep you informed as these matters develop. For additional information, please contact the Legislative Affairs Department at (202) 326-5890. A copy of Chairman D'Amato's Congressional Record statement and Wall Street Journal article, a section-by-section analysis of the bill and the bill are attached. This memo can be found on FUNDS, the Institute's Fund User Network and Delivery System, under "Legislative Affairs; Washington

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