

MEMO# 1583

December 12, 1989

SIA PROPOSAL ON GLASS-STEAGALL

- 1 - December 12, 1989 TO: BOARD OF GOVERNORS NO. 74-89 RE: SIA PROPOSAL ON GLASS-STEAGALL _____ The Securities Industry Association has proposed a legislative plan that would amend the Glass-Steagall Act by permitting banking organizations to engage in securities-related activities, subject to certain limitations. The proposal would also permit securities firms to engage in consumer banking and grant them access to the Federal Reserve payments system and discount window. Attached is a copy of the SIA's press release on its proposal. Among the most important elements of the proposal are the following: -- A bank holding company could own a separately capitalized "investment banking finance company" or "IBFC", which could engage in a full range of securities activities. The entity would be regulated by the SEC. -- Firewalls would be required between the IBFC and any federally insured depository institution owned by the bank holding company. For example, an insured bank could not participate in the same transaction or set of transactions with the IBFC. (We understand that this would mean that all commercial lending to a company that is a client of the IBFC would have to be done through the IBFC, and not the insured depository institution.) -- A securities firm could also establish an IBFC. Broker-dealers affiliated with an IBFC could participate directly in the large dollar payment system and the federal funds market. In addition, they could borrow directly from the Federal Reserve discount window during liquidity crises. -- A federally insured bank could own a retail brokerage subsidiary, which also would be subject to firewalls between it and the IBFC. -- Registered broker-dealers could establish federally - 2 - insured consumer banks. Although the SIA proposal, at least in part, contemplates a "two-way street", it does not address other issues that the Institute has stressed in the past, such as amendments to the Investment Company Act to regulate bank mutual fund activities and the closing of the common trust fund loophole. The January Board of Governors meeting will discuss the SIA proposal and other recent proposals to amend the Glass-Steagall Act and will consider the positions to be taken by the Institute. Matthew P. Fink Senior Vice President & General Counsel Attachment