INVESTMENT COMPANY INSTITUTE
The Asset Management Industry SERVING INDIVIDUAL INVESTORS

MEMO# 2526

February 13, 1991

EARLY ACTIVITY ON FINANCIAL SERVICES REFORM

1 * "Modernizing the Financial System, Recommendations for Safer, More Competitive Banks," February 1991, U.S. Treasury Department. February 13, 1991 TO: BOARD OF GOVERNORS NO. 11-91 FEDERAL LEGISLATION MEMBERS NO. 3-91 FEDERAL LEGISLATION COMMITTEE NO. 4-91 RE: EARLY ACTIVITY ON FINANCIAL SERVICES REFORM ____ I. TREASURY PROPOSAL The Treasury released its 700+ page proposal to reform the deposit insurance system and restructure the financial services industry.*1 Treasury's proposal: - provides for a two-way competitive street, under which all banks can affiliate with securities firms and all securities firms can affiliate with banks; - provides for repeal of restrictions on interstate banking; - provides for bank-securities firm affiliations through the holding company structure, under which banking activities and securities activities would be conducted by separate subsidiaries of holding companies; - provides that bank securities activities (including the sponsorship and underwriting of mutual funds) conducted by these securities subsidiaries would be subject to SEC regulation; and - recognizes the need for firewalls between the bank and its securities affiliate. - 2 - Two issues of importance to the Institute are not finalized: specific firewall provisions dealing with mutual funds sponsored and underwritten by bank securities affiliates and regulation of bank common trust funds and collective investment funds for retirement plans. Treasury tentatively expects to send its legislative package to the Hill on February 26 and 27. Secretary Brady is expected to testify before both Banking Committees on those days. (See Attachment I). II. H.R. 192, "THE FINANCIAL INDUSTRY REFORM AND CAPITAL ENFORCEMENT ACT" BY CONGRESSMAN BARNARD A separate but related legislative effort is H.R. 192, the "Financial Industry Reform and Capital Enforcement Act" introduced by House Banking Committee Member Doug Barnard (D-GA). H.R. 192 and the Treasury restructuring proposal are very similar; H.R. 192 will be the subject of extensive hearings, the first ones being on February 27 and 28. III. CHAIRMAN DINGELL'S RESPONSE TO TREASURY PROPOSAL In a generally unfavorable response to the Treasury proposal, Energy and Commerce Committee Chairman John Dingell (D-MI) compared the Treasury proposal to savings and loan deregulation proposals and asked "whether the good folks who brought to us that success are seeking to inflict a second success on society." Dingell noted that the proposal is "not a cure for what ails the banks...does not provide for 'consolidated supervision'... weakens the role of the...Federal Reserve Board...breaks down the wall between banking and commerce" and is "bad medicine for banks and poison for the American public." In closing, Dingell said, "I am ready to assist the Administration in writing good legislation, but I will not support irresponsible legislation. Fortunately, this is not a fully formed offspring, and I am sure the Congress will want to rework it." (See Attachment II). IV. DINGELL'S "SECURITIES REGULATORY EQUALITY ACT OF 1991" On the same day the Treasury Department sent its financial services reform

proposal to the Congress, Energy and Commerce Committee Chairman John Dingell reintroduced the "Securities - 3 - Regulatory Equality Act of 1991." Dingell was joined by full Committee Ranking Republican Norman Lent (R-NY), Securities Subcommittee Chairman Ed Markey (D-MA) and Securities Subcommittee Ranking Republican Matt Rinaldo (R-NJ). The bill would not grant any new powers to banks, but instead would enact various regulatory provisions, including a prohibition on common names and logos and a provision to close the loophole for publicly-offered common trust funds. The bill would also repeal the 1933 Act exemption for bank-issued securities and repeal Section 12(i) of the 1934 Act, resulting in the SEC having authority over disclosure requirements of certain bank and thrift securities. Given the important bi-partisan and high level support of this bill, it is likely to be an integral part of the Committee’s response to the financial services restructuring debate. (See Attachment III). V. CONGRESSIONAL INTEREST IN CONSOLIDATING DISCLOSURE AUTHORITY AS REGARDS BANKS UNDER THE SEC In letters to banking regulators and SEC Chairman Breeden, Senate Securities Subcommittee Chairman Chris Dodd (D-CT) and Ranking Republican Member John Heinz (R-PA) requested data on the advisability of "consolidating all disclosure authority [as regards banks] under the SEC." The letters cite the recommendations of the Bush Task Force and various bills introduced by Senator Tim Wirth (D-CO) and Chairman Dingell (to repeal 12(i) of the 34 Act) as indicative of Congressional interest in the matter. This matter is expected to be considered early in this session. (See Attachment IV). We will keep you informed as these matters progress. This memo can also be found on FUNDS, the Institute’s Fund User Network and Delivery Systems, under Legislative Affairs, Washington Update. Julie Domenick Vice President-Legislative Affairs Attachments

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