

MEMO# 2450

January 9, 1991

BREEDEN TESTIMONY BEFORE SENATE BANKING COMMITTEE: INVESTMENT MANAGEMENT INDUSTRY; MONEY FUND INSPECTIONS; RULE 2A-7; FINANCIAL SERVICES DEREGULATION

January 9, 1991 TO: BOARD OF GOVERNORS NO. 4-91 FEDERAL LEGISLATION MEMBERS NO. 1-91 FEDERAL LEGISLATION COMMITTEE NO. 1-91 RE: BREEDEN TESTIMONY BEFORE SENATE BANKING COMMITTEE: INVESTMENT MANAGEMENT INDUSTRY; MONEY FUND INSPECTIONS; RULE 2a-7; FINANCIAL SERVICES DEREGULATION

In wideranging testimony before the Senate Banking Committee today, SEC Chairman Richard Breeden presented his views on the overall condition of the securities industry. There were several comments of specific interest to Institute members. INVESTMENT MANAGEMENT INDUSTRY - "CRITICAL LINK TO MARKETS" Chairman Breeden noted that the "investment management industry" provides the "critical link" to the markets for 1 in every 4 households. He cited certain investor protections afforded by the Investment Company Act as predicate to the success of the industry: - safekeeping of fund assets; - limits on leveraging; - prohibitions on self-dealing; - independent directors; and - fidelity insurance. INSPECTIONS OF MONEY AND LARGE FAMILY FUNDS/RULE 2a-7 Chairman Breeden advised the Committee that in 1991 the SEC would be inspecting the operations of "most money market funds and most funds that are part of the industry's hundred largest fund families." In questioning, Securities Subcommittee Chairman Dodd asked about the proposed amendments to Rule 2a-7 concerning the composition of money market fund portfolios. Chairman Dodd noted - 2 - that the public has come to view money funds as interchangeable with bank accounts and expressed his hope that the rule not be "watered down," particularly in view of a potentially steady stream of downgradings. Chairman Breeden responded by saying that while there might be some change in the amendments to the rule as originally proposed, he felt certain there would nevertheless be a "substantial toughening of current rules" (emphasis added). Both Chairman Dodd and Breeden noted publicly that the Institute has taken a very responsible position on this issue. FINANCIAL SERVICES REFORM Chairman Breeden reiterated his strong support for reform of the financial services industry. He commented that he would oppose any legislation that did not provide for a complete "two- way street;" he said that firms traditionally prohibited by the Bank Holding Company Act from entering the banking business must be permitted to do so for competitive fairness. Attached for your reference is Chairman Breeden's testimony. His comments on the investment management industry are at pages 23-25. This memo can also be found on FUNDS, the Institute's Fund User Network

and Delivery Systems, under Legislative Affairs, Upcoming Congressional Hearings. Should you wish further information, please call me at (202) 955-3544. Julie Domenick Vice President Legislative Affairs

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