

MEMO# 11105

July 9, 1999

HOUSE OF REPRESENTATIVES APPROVES FINANCIAL SERVICES REFORM LEGISLATION

[11105] July 9, 1999 TO: BOARD OF GOVERNORS No. 45-99 FEDERAL LEGISLATION
MEMBERS No. 18-99 PRIMARY CONTACTS - MEMBER COMPLEX No. 68-99 PUBLIC
INFORMATION COMMITTEE No. 31-99 RE: HOUSE OF REPRESENTATIVES APPROVES
FINANCIAL SERVICES REFORM LEGISLATION

On July 1, the House of Representatives passed H.R. 10, the "Financial Services Act of 1999," by a 343-86 vote. The bill repeals the Glass-Steagall Act's restrictions on bank and securities firm affiliations and amends the Bank Holding Company Act to permit affiliations among financial services companies, including banks, registered investment companies, securities firms and insurance companies. The provisions that have the greatest effect on the investment company industry are summarized below. Holding Company Regulation H.R. 10 utilizes functional regulation to govern the entities in a newly created bank holding company structure. The legislation designates the Federal Reserve Board (FRB) as the "umbrella" regulator of the bank holding companies, but also requires the FRB and other bank regulators — the Federal Deposit Insurance Corporation, the Office of Thrift Supervision and the Comptroller of the Currency — to defer to the authority of the SEC when interpreting and enforcing the federal securities laws. The bill delineates the bank regulators' ability to regulate investment companies and other entities. Specifically, bank regulators are permitted to address concerns involving an investment company or other entity only if they represent a material risk to an affiliated bank, the deposit insurance funds or the payment system. Community Reinvestment Act (CRA) The bill contains no provisions to extend the CRA to investment companies or other non-bank entities. The Treasury secretary is directed to conduct a study of the bill's effect on the extent to which banks provide adequate services to low- and moderate-income communities as intended by the CRA. 1 See Memorandum to the Board of Governors No. 36-99, Federal Legislation Members No. 16-99, Primary Contacts - Member Complex No. 54-99, Public Information Committee No. 24-99. Privacy H.R. 10 requires financial firms to adopt a privacy policy and disclose the details of the policy to customers. For mutual funds, the SEC will regulate the content of the privacy policy and its format for disclosure. The bill requires financial firms to give customers an opportunity to "opt out" or prevent the sharing or sale of their personal information to unaffiliated third parties. Financial firms, however, are not required to provide an "opt out" if the sharing of customer information with an unaffiliated third party is part of the ordinary course of providing a financial service or product. H.R. 10 also prohibits the disclosure of medical information by insurance companies without customer approval. Commercial Baskets The bill prohibits bank holding companies from engaging in

commercial activities, but would give the Federal Reserve Board flexibility to authorize permissible, "complementary" activities to supplement the permissible financial activities undertaken by a bank holding company. Unitary Thrifts H.R. 10 prohibits companies engaged in commercial activities from owning a single or "unitary" thrift. However, the bill includes a grandfather clause allowing commercial companies that currently own a thrift or have applications pending as of March 4, 1999 to continue operations. * * * * * The House and Senate will meet in a conference committee to resolve the differences between S. 9001 and H.R. 10. The House and Senate may vote on a final version prior to the August congressional recess. We will keep you informed of further developments. Matthew P. Fink

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