

MEMO# 8659

February 21, 1997

FINANCIAL SERVICES REFORM UPDATE: BROAD NEW BILLS INTRODUCED BY D'AMATO AND BAKER; GREENSPAN AND LEVITT TESTIFY IN HOUSE

February 21, 1997 TO: BOARD OF GOVERNORS No. 9-97 FEDERAL LEGISLATION MEMBERS No. 5-97 PUBLIC INFORMATION COMMITTEE No. 6-97 RE: FINANCIAL SERVICES REFORM UPDATE: BROAD NEW BILLS INTRODUCED BY D'AMATO AND BAKER; GREENSPAN AND LEVITT TESTIFY IN HOUSE

I. Senator DAmato and Representative Baker Introduce Broad Financial Services Reform Legislation

On February 11, 1997 Senate Banking Committee Chair Alfonse DAmato (R-NY) introduced a comprehensive financial services restructuring bill, S. 298, the "Depository Institution Affiliation Act." On the same day, Representative Richard Baker (R-LA), Chair of the House Banking Subcommittee on Capital Markets, Securities, and Government Sponsored Enterprises, introduced a companion bill, H.R. 669, also called the "Depository Institution Affiliation Act." Both bills are identical to legislation introduced by their respective sponsors in the last Congress; the Institute generally supported that legislation. The new DAmato and Baker bills authorize the creation of a Financial Services Holding Company (FSHC), a new entity that could own commercial banks, securities firms, insurance companies and commercial companies. Broadly speaking, FSHC subsidiaries would be regulated along functional lines with, for example, securities affiliates being regulated by the SEC. Transactions among affiliates would generally be held to the arms-length standards set out in sections 23A and 23B of the Federal Reserve Act. Like the earlier legislation, the new DAmato and Baker bills would create a Financial Services Oversight Committee made up of representatives of the financial regulatory agencies including the SEC to help ensure streamlined and uniform regulations. Chairman DAmato has indicated that financial services modernization will be a priority for the Senate Banking Committee. He has yet to schedule any hearings, and has indicated that he plans to wait until the House completes its work on a financial services reform bill before moving the bill in the Senate. 1 See Memorandum to Board of Governors No. 6-97, Federal Legislation Members No. 3-97, and Public Information Committee No. 4-97, dated February 12, 1997. 2 See Memorandum to Board of Governors No. 3-97, Federal Legislation Committee No. 1-97, and Public Information Committee No. 2-97, dated January 13, 1997. -2- Chairman Baker has said the Subcommittee on Capital Markets, Securities and Government Sponsored Enterprises will begin hearings on H.R. 669 in March. In the meantime, the House Banking Subcommittee on Financial Institutions and Consumer Credit, chaired by Representative Marge Roukema (R-NJ), held hearings on H.R. 268, "The Depository Institution Affiliation and Thrift Charter

Conversion Act of 1997" on February 11 and 13, with another hearing scheduled for February 25. Representative Jim Leach (R-IA), the Chairman of the full House Banking and Financial Services Committee, plans hearings for his legislation, H.R. 10, the "Financial Services Competitiveness Act of 1997" late in March. Chairman Leach hopes to bring a financial services modernization bill to the House floor by July. II. Federal Reserve Board Chairman Alan Greenspan and SEC Chairman Arthur Levitt Testify in the House on Financial Services Reform On February 13, the banking and securities regulators testified before the House Subcommittee on Financial Institutions and Consumer Credit on H.R. 268. Federal Reserve Board Chairman Alan Greenspan made the case for the Federal Reserve Board being an "umbrella" regulator over the new financial services holding company. However, Mr. Greenspan also hinted that the Fed might accept regulatory authority over the larger holding companies while forgoing authority over smaller holding companies. Regarding banking and commerce, Mr. Greenspan said, "new technologies will make it highly unlikely that the walling off of any ownership of financial institutions by nonfinancial businesses and vice-versa can be continued very far into the 21st century. Nonetheless, the Board has concluded that it would be wise to move with caution in addressing the removal of the current legal barriers between commerce and banking." He declined to say how much of the company's business may be in commercial activities, but indicated that the 25 percent figure in H.R. 268 may be too high. At the same hearing Arthur Levitt, Chairman of the Securities and Exchange Commission, made a strong case for functional regulation and against "regulation by committee," and said that H.R. 268 could go farther toward true functional regulation. Regarding the merger of banking and commerce, Mr. Levitt pointed to the historical absence of problems in the securities industry where financial and commercial activities are permitted. In response to a question regarding possible expansion of the Community Reinvestment Act (CRA) to nonbanking entities, Mr. Levitt cautioned that Congress should be hesitant about expanding CRA coverage to securities activities, and specifically mentioned the inadvisability of expanding such coverage to mutual fund firms. He also cautioned the panel against imposing safety-and-soundness regulation on securities firms. We will keep you informed as these bills proceed. A copy of Chairman D'Amato's statement introducing S. 298, and a copy of the statements of Representatives Baker and co-sponsor John LaFalce (D-NY) upon introducing H.R. 669, are attached. Matthew P. Fink President Attachments (in .pdf format) Note: If you wish to obtain a copy of S. 298, H.R. 669, or the February 13 testimony of Federal Reserve Board Chairman Alan Greenspan or Securities and Exchange Commission Chairman Arthur Levitt before the House Banking Subcommittee on Financial Institutions and Consumer Credit, please call the Institute's Information Resource Center at 202/326-8304, and ask for this memo's attachment number: 8659.