

**MEMO# 2709**

April 24, 1991

# **INSTITUTE TESTIMONY ON ADMINISTRATION'S FINANCIAL SERVICES RESTRUCTURING BILL**

April 24, 1991 TO: BOARD OF GOVERNORS NO. 26-91 RE: INSTITUTE TESTIMONY ON  
ADMINISTRATION'S FINANCIAL SERVICES RESTRUCTURING BILL

On Thursday, April 18, the Institute testified before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the House Committee on Banking, Finance and Urban Affairs on the Bush Administration's legislative proposal to restructure the financial industry. This was the Institute's first testimony on the Administration's bill. (Copies of the legislation were previously sent to you. See Memorandum to Board of Governors No. 20-91, dated March 28, 1991.) The Institute's testimony expressed general support for the Administration's bill. The Institute noted that the bill provided for a full two-way competitive street under which all securities firms, including those with insurance and commercial affiliates, could become affiliated with banks, since it would remove the prohibition on commercial firms being affiliated with bank holding companies. In addition, the bill would permit interstate banking, which the Institute has said is necessary in order to achieve competitive equality. The Institute's testimony also supported those provisions of the bill that would require most bank securities activities, including mutual fund activities, to be carried out by separate holding company affiliates, and that would subject these activities to full SEC regulation. The Institute also endorsed the narrowing of the exemption under the securities laws for bank common trust funds, which would remove the possibility of banks using this exemption to publicly offer the functional equivalent of mutual funds free from SEC regulation. With respect to the SEC study of the regulation of bank collective funds for retirement plans, which would be mandated by the bill, the Institute stated that it supported the goal of the study -- to regulate all pooled funds on an equal basis -- but believed the simplest way to achieve that goal would be to repeal, or at least narrow the scope of, the current exemption. The Institute's testimony also stated that, although the bill contains certain amendments to the Investment Company Act to protect against possible abuses arising from the sponsorship of mutual funds by bank affiliates, it does not go far enough in this regard. The Institute stated that the bill should be revised to include additional provisions, many of which have been endorsed by the SEC. Copies of the Institute's written and oral testimony are attached. Craig S. Tyle Associate General Counsel

Attachment

abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.