

MEMO# 3212

October 24, 1991

ANTICIPATED HOUSE ACTION REGARDING GLASS-STEAGALL \\~SE FL

October 24, 1991 TO: BOARD OF GOVERNORS NO. 80-91 RE: ANTICIPATED HOUSE ACTION REGARDING GLASS-STEAGALL _____

The two House Committees with primary jurisdiction over Glass-Steagall legislation, the House Banking Committee and the House Energy and Commerce Committee, have reached tentative agreement over the contents of banking legislation to be presented to the floor of the House. This makes it possible that the House shortly will vote on legislation that grants bank securities affiliates full securities powers, including the authority to sponsor and underwrite mutual funds. Background As we previously informed you, the House Banking Committee reported the Bush Administration's bill on financial services reform last June. (See Memorandum to Board of Governors No. 50-91, dated July 3, 1991.) That bill granted bank affiliates full securities powers, including mutual fund powers. For jurisdictional reasons, the bill did not contain any firewall provisions, including mutual fund firewalls. It did, however, establish a full "two-way street" by allowing all securities firms, including those affiliated with insurance companies and commercial corporations, to acquire banks. The bill was then referred to three other House Committees, including the House Energy and Commerce Committee. As expected (See Memorandum to Board of Governors No. 59-91, dated August 13, 1991), the Energy and Commerce Committee deleted all provisions that would permit affiliations between commercial corporations or insurance companies and banks. However, the Committee also included strong firewall provisions, including many of those recommended by the Institute. (See Memorandum to Board of Governors No. 68-91, dated September 12, 1991.) Current Status The two House Committees have agreed tentatively that the bill to be reported to the House floor will grant bank securities affiliates securities powers but will not contain any provisions allowing commercial corporations or insurance companies to become affiliated with banks. The bill likely will contain firewall provisions reported by the Energy and Commerce Committee. Outlook The tentative agreement reached between the two House Committees increases the likelihood that Congress will enact comprehensive banking legislation this year, which includes the repeal of the Glass-Steagall Act, particularly since the Senate Banking Committee reported a bill earlier this year granting banks full securities powers. Senate floor action is anticipated in early November. On the other hand, press reports indicate that the American Bankers Association and the Treasury may oppose the compromise reached by the two House Committees because of the strict firewall provisions and limits on bank insurance activities. In addition, with a crowded legislative agenda and the limited number of legislative days remaining in this session, it may be difficult for Congress to enact comprehensive legislation this year. We will keep you advised of further developments. Matthew P. Fink President

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