

MEMO# 2523

February 6, 1991

ADMINISTRATION PROPOSAL FOR MODERNIZING THE FINANCIAL SYSTEM

February 6, 1991 TO: BOARD OF GOVERNORS NO. 10-91 RE: ADMINISTRATION PROPOSAL
FOR MODERNIZING THE FINANCIAL SYSTEM

On February 5, 1991, the Administration released its proposal to reform the deposit insurance system and restructure the financial services industry. From a briefing given by Treasury Secretary Brady and from the accompanying Treasury document, it appears that the Administration's proposal incorporates many of the Institute's suggestions. Specifically, it appears that the Administration's proposal: - provides for a two-way competitive street, under which all banks can affiliate with securities firms and all securities firms can affiliate with banks - provides for repeal of restrictions on interstate banking, thus permitting securities firms which affiliate with banks to offer securities and banking products on a nationwide basis - provides for bank-securities firm affiliations through the holding company structure, under which banking activities and securities activities would be conducted by separate subsidiaries of holding companies - provides that securities activities (including the sponsorship and underwriting of mutual funds) conducted by these securities subsidiaries would be subject to SEC regulation - recognizes the need for firewalls between the bank and its securities affiliate Because legislative language is still being developed, two issues of importance to the Institute remain unclear: whether the legislation will contain specific firewall provisions dealing with mutual funds sponsored and underwritten by bank securities affiliates; and how the legislation will deal with the regulation of bank common trust funds and collective investment funds for retirement plans, although the Treasury document does state that "Banks' pooled investment activities would be regulated in a manner more similar to investment companies". The Institute plans to meet with Treasury officials to discuss these matters. Attached is the section of the Treasury's paper dealing with "Modernized Financial Services Regulation." We will keep you advised of further developments. Matthew P. Fink Senior Vice President and General Counsel Attachment

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