

**MEMO# 4609**

March 18, 1993

## **STUDY ON "THE PARALLEL BANKING SYSTEM"**

March 18, 1993 TO: BOARD OF GOVERNORS NO. 20-93 RE: STUDY ON "THE PARALLEL BANKING SYSTEM" \_\_\_\_\_ The Economic Policy Institute, a public policy research organization, recently released a study on financial services regulation. The study contends that various types of non- depository financial intermediaries (including mutual funds) have, in recent years, come to constitute a "parallel banking system," and that this development, in turn, has raised a number of concerns, including distortion of the distribution of credit, additional risk to the deposit insurance fund (due to the weakening position of banks) and impediments to monetary policy. While the paper focuses specifically on finance companies, it recommends that all financial firms (including all firms that accept funds from the public for investment) be made subject to a new "Financial Industry Licensing Act", which would, among other things, impose uniform reserve, capital, and liquidity requirements and require compliance with the Community Reinvestment Act and other fair-lending statutes. Attached is a copy of the study, along with a press article on its release. Matthew P. Fink President

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