

MEMO# 2804

May 31, 1991

HOUSE SUBCOMMITTEE REPORTS ADMINISTRATION'S FINANCIAL SERVICES RESTRUCTURING LEGISLATION

-1- May 31, 1991 TO: BOARD OF GOVERNORS NO. 37-91 RE: HOUSE SUBCOMMITTEE
REPORTS ADMINISTRATION'S FINANCIAL SERVICES RESTRUCTURING LEGISLATION

On May 23, the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the House Committee on Banking, Finance and Urban Affairs reported the Administration's bill on financial services restructuring, the "Financial Institutions Safety and Consumer Choice Act of 1991" (H.R. 1505). Several amendments were made to the bill by the Subcommittee. (Copies of the bill, as introduced, were previously sent to you. See Memorandum to Board of Governors No. 20-91, dated March 28, 1991.) Set forth below is a brief summary of some of the more significant amendments. Amendments Affecting Bank Securities Powers H.R. 1505 would permit banks to engage in a full range of securities activities, generally through separate affiliates. Several amendments were made to the bill to place greater restrictions on securities activities of bank affiliates. Affiliated Transactions. One amendment approved by the Subcommittee would prohibit various transactions between a bank and an affiliated securities firm, including loans by a bank to an investment company sponsored, managed or advised by the securities affiliate. The amendment also would prohibit certain other transactions between a bank and an affiliated securities firm. In addition, the amendment generally would prohibit a bank from treating unaffiliated securities firms less favorably than affiliates in providing credit or access to clearing systems. Director and Officer Interlocks. Another amendment approved by the Subcommittee generally would bar common directors and officers between banks and securities affiliates. There would be an exception for smaller institutions. -2- Disclosure to Customers. The Subcommittee approved an amendment that would require banks and securities affiliates, in connection with the sale of any instrument other than an insured deposit, to obtain from the customer a signed statement which reads: "I understand that this is not an insured deposit. The United States Government does not guarantee it. If [name of institution or affiliate] fails, I know I may lose some or all of my money." A separate amendment would require banks and securities affiliates to make additional disclosures of this nature to its customers and in all advertisements. The bank or securities affiliate would be required to obtain a written acknowledgment from the customer with respect to each required disclosure. This amendment also would prohibit disclosures of confidential customer information by banks to their securities affiliates. Application of CRA Standards. The Subcommittee also approved an amendment that would require that any firm (including a securities firm) seeking to acquire an insured depository enter into various commitments designed to ensure that the

depository satisfies community reinvestment and similar standards. Other Amendments Insurance Activities. The Subcommittee approved an amendment that would prohibit affiliations between banks and insurance companies through financial services holding companies (the successor to bank holding companies in the Administration's bill). Insurance companies could still be "diversified holding companies" and, thus, acquire financial services holding companies on the same basis as commercial firms. A separate amendment would prohibit banks from using confidential customer information in connection with insurance activities. Regulatory Restructuring. The Subcommittee voted to drop Title III of the bill, which would have consolidated the Office of Thrift Supervision and the Office of the Comptroller of the Currency into a single agency that would regulate national banks and thrifts, while the Federal Reserve Board would regulate state banks. A Subcommittee Task Force has been appointed to draft an alternative approach. Banking and Commerce An amendment to repeal the provisions of the bill permitting commercial firms to own banks was withdrawn. (The Institute sent letters to all Subcommittee members in opposition to this amendment.) However, it is anticipated that the amendment will be reintroduced at the full Committee. (It should be noted that, if adopted, this amendment, together with the amendment prohibiting insurance companies from being affiliated -3- with banks through financial services holding companies, noted above, would bar insurance companies from directly or indirectly owning banks.) * * * The full House Banking Committee is expected to begin consideration of the Administration's bill in mid-June. We will keep you informed of developments. Craig S. Tyle Associate General Counsel

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