SECURITIES INDUSTRY ASSOCIATION
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S I A   B U L L E T I N

July 30, 1987

To: House and Senate Banking Committee Members

From: Robert A. Gerard, Chairman,
Municipal Finance Committee

John T. O'Rourke, Legislative Counsel,
Municipal Finance Committee

Re: Glass-Steagall Legislative and Regulatory Update

From time to time, we update our members about legislative, regulatory and judicial developments relating to the financial services industry. As a service, we would like to share this material with you. On June 2 we sent you the first of these mailings. This is the second in the series. We would appreciate your comments or suggestions about how we can better provide you with information.

The Banking Bill

During the past month, as the enclosed clippings show, pending banking legislation approved by the Senate-House conference has obtained overwhelming support by diverse industry and consumer groups. Articles relating to efforts to make certain that the bill's moratorium covers the Comptroller of the Currency's recent agressive efforts to open new loopholes for banks, without waiting for Congress to act, and letters to the White House on the bill are on the right side of this packet.

Last Sunday's Washington Post carried a major article on the issues at stake in legislation to restructure the financial services industry. We have included this article on the right side of the packet, along with:

- An article about a speech by the Chief Counsel of the Comptroller's office urging bankers to exploit all conceivable loopholes before banking legislation is enacted,

- a Wall Street Journal article by New York Fed President Corrigan expressing concerns about expanded powers for banks,

- coverage of a speech by a regional Federal Reserve Bank officer warning that expanded bank powers "may lead to an undesirable propagation of the deposit insurance subsidy,"

- a Business Week commentary on the risks of tearing down the walls between commerce and banking.

Regulatory Developments: Comptroller and Fed Continue To Open Loopholes

Clippings regarding regulatory developments are included on the left side of this packet. Treasury has, according to the New York Times, endorsed the idea of "superbanks." Proposed Federal Reserve Board Chairman Alan Greenspan has stated that he does not share Chairman Volcker's basic concern with mixing banking and commerce, but thinks an effective "firewall" can be created between a bank's federally-backed deposit activities and its securities activities. Chairman Volcker's comments on the views of Greenspan and Corrigan are also included.

The Comptroller has been extremely active. On June 16, he shocked the financial community by approving Security Pacific Bank's bid to sell asset backed securities directly, without even following the Fed's limitations on such transactions in its ruling opening the "not principally engaged" loophole earlier this spring. The Comptroller also released a January "interpretive" letter stating that the underwriting of any "ineligible" securities may be done by a bank subsidiary up to at least 25 percent without violating the Section 20 "not principally engaged" standards, again putting the Comptroller in direct conflict with the Fed's ruling on the same issue.

The Fed also has approved a number of new applications to grant banks new securities powers. On July 14, it granted seven additional bank holding companies the power through subsidiaries under the "not principally engaged" loophole to underwrite and deal in securities backed by auto loans, credit card accounts or other consumer-related receivables. On July 17, the Fed approved an application by Chase Manhattan to issue mortgage-backed securities within a mortgage banking subsidiary.

On June 22, the Supreme Court declined to hear an appeal of the D.C. Circuit's December approval of an earlier Fed decision allowing banks to place commercial paper with large institutional investors on an agency basis.

Financial Market Developments

At the back of the right side of the packet are articles on securities firms' recent losses in trading securities of the kind banks want to do, the FDIC's lenient regulation of troubled banks, and the lack of public support for banks going outside their core businesses. An article on a Moody's study that shows Japanese banks taking higher risks, and proposes downgrading of some Japanese banks, is also included.

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