

ORAL STATEMENT OF DAVID S. RUDER  
CHAIRMAN OF THE SECURITIES AND EXCHANGE COMMISSION  
BEFORE THE SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

CONCERNING  
REPEAL OF THE GLASS-STEAGALL ACT, S. 1866, S. 1981, AND S. 1905

December 3, 1987

Chairman Proxmire and Members of the Committee:

The Securities and Exchange Commission appreciates this opportunity to present its views concerning the possible repeal of the Glass-Steagall Act, and the three bills currently under consideration by this Committee:

- S. 1866, the proposed Financial Modernization Act;
- S.1891, the proposed Financial Services Oversight Act;
- and;
- S.1905, the proposed Depository Institution Affiliation Act.

I ask that my written statement, previously submitted to the Committee, be included in the hearing record. Because S. 1905

was only introduced yesterday, it is not discussed in my written statement. I will, however, address it briefly in this opening statement.

As the federal agency primarily responsible for regulation of the securities markets, the Commission has a fundamental interest in the protection of investors. From our perspective what is important is that all participants in our capital markets be regulated in a manner providing protection for investors.

The Commission is unable to support repeal of the Glass-Steagall Act unless the investor protection concerns arising from increased bank securities activities are met. It is the Commission which is directly charged with protecting investors, and we should be able to apply our regulations to all market participants. In order to ensure investor protection, banks must be required to conduct both their new and their existing securities activities in separate securities affiliates, subject to Commission regulation.

Note of the three bills completely meets the Commission's concerns, although based on my initial review, it appears that S. 1905 would best implement this requirement.

Specifically, the Commission believes that the following activities by banks should be conducted only in securities affiliates, subject to Commission regulation:

- (1) publicly-advertised brokerage (that is, buying and selling securities as agent for the accounts of others);
- (2) brokerage services provided to advised accounts for which transaction-related compensation is received;
- (3) underwriting and dealing in corporate securities;
- (4) underwriting and dealing in municipal revenue bonds;
- (5) sponsoring, underwriting, and distributing unit investment trusts; and
- (6) underwriting and distributing investment company securities.

In addition, those banks that choose to establish securities affiliates should be required to conduct even their general obligation municipal securities activities in those affiliates subject to direct Commission oversight. The Commission does not propose, however, that banks be required to place their government securities or commercial paper activities in securities affiliates.

Further, if banks are permitted to underwrite and distribute investment company securities, the Investment Company Act and the Investment Advisers Act must be amended to include protections not deemed necessary when bank activities in this area were restricted. Concerns that must be addressed include:

- bank custody of assets of affiliated investment companies
- affiliated transactions;
- investment company borrowing from affiliated banks;
- banks activities as advisers to investment companies;
- the independence of directors; and

-- the use of a bank's name by an affiliated investment company.

We believe that Congress should also implement the recommendations of Vice President Bush's Task Group on Regulation of Financial Services to consolidate within the Commission the securities registration and reporting requirements for all publicly-owned banks and thrifts.

The views I am expressing today are not new. The Commission has long been on record in favor of functional regulation of securities activities, with that regulation conducted by the agency which has a special mandate and special expertise in the area of investor protections.

The Commission has been and will continue to be in contact with the banking regulators, and with Members of Congress and their staffs.

We would be happy to work with the Committee and others with regard to the proposed legislation in order to address the Commission's investor protection concerns.

(1) If our concerns are met, we will no longer state that we cannot support plan stage reform or refer ~~it~~ ~~to~~ ~~the~~ ~~board~~ ~~on~~ ~~consumer~~ ~~protection~~ ~~grounds~~

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(2) The Commission does not yet have a position regarding the stage question whether it would support plan stage reform.

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(3) I cannot express my views until I have had a chance to <sup>review proposed repeat</sup> ~~discuss~~ ~~with~~ ~~other~~ ~~commissioners~~ with the other Commissioners.

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- Municipals - 90's / ~~Plan~~ Revenues -
- Housing - Securitization
- Small Savers - Disclosures / Conflicts