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SUBJECT: Hill Reactions to Treasury's Financial Services Modernization Proposal

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TEXT:

Yesterday I attended the House Banking Committee hearing on the three financial services modernization bills (HR 10, HR 268 and HR 669) before the committee. Several significant comments were made about the Administration proposal that Secretary Rubin outlined Wednesday.

Chairman Leach asked each of the regulators who testified yesterday (Chairs Greenspan, Helfer, and Levitt, Comptroller Ludwig, and Director Retsinas) to comment on the Administration's proposal either then or later on in writing. None of them choose to respond at the hearing. However, Chairman Greenspan and Chairwoman Helfer both stated that they preferred HR 10 to the other two bills. Chr. Greenspan praised HR 10 stating it "enhances efficiency, competition and convenience, all with only modest and manageable risks to the system". Chairwoman Helfer stated she and her board prefer HR 10 because it does not allow affiliations between banks and commercial firms. However, she went on to say they felt that if we did allow said affiliations they should be limited to 5% of non-financial revenues.

Chairman Leach said he will introduce a bill for markup drawing on the three bills introduced on the House side on the topic so far, as well as the Administration's draft language. Leach said he intends to complete committee action on the legislation before the middle of June and Secretary Rubin is scheduled to testify on June 3.

Subcommittee Chairwoman Roukema asked the regulators for specific suggestions on how to have an umbrella regulator and various functional regulators work together. She particularly pressed Chairman Greenspan and Chairman Levitt on this issue since they presented such different views on the matter in their testimony. Chr. Greenspan stated that he would advocate a "Fed Lite" regime and Chr. Levitt said he sees a coordinating role, but hates the council of regulators idea.

Reactions to the Administration Proposal

In press reports, Chairman Leach said that "while differences of judgment on several key legislative points remain, Secretary Rubin's statement [outlining the Administration's proposal]...is very constructive to the process."

Also in press reports, Rep. John LaFalce (D-NY) said the Treasury's "leadership in this area greatly enhances our chances of legislating successfully."

Rep. Vento (D-MN) was critical of the Administration's proposal. He stated repeatedly that he was disappointed in the proposal. He said that he had been hoping that the Administration's proposal would lead the debate forward and give it more focus. He was disappointed that it did not do that. Others were less critical and Chairman Leach made a joke about being in the uncomfortable position as Chairman to support the Administration's proposal. In statements to the press he called the Administration's position "tantamount to surrender on the issue."