Pierson, Ball & Dowd

Client Memorandum

Financial Institutions Deregulation Act
of 1983 (FIDA)

The stated purpose of FIDA, as expressed by Sec. Regan, is to "deregulate the financial services industry." Quoting Sec. Regan further:

> "The legislation, as drafted, would authorize all depository institutions -- commercial banks, savings banks and savings and loan associations -- to expand through holding companies the financial services they can offer to public, and thus to compete more effectively with less regulated financial service organizations."[1]

Although Sec. Regan speaks of the legislation as another step in deregulating "the financial service industry" it offers nothing to the securities industry, the mutual fund industry, the insurance and real estate industries except unfair competition from large financial center depository institutions. We may indeed wonder why these few but powerful beneficiaries need this kind of legislature assistance in view of the following recently announced earning reports:

Six Months Net Income 1983 v. 1982

Bank	Increase
Bank of Boston	35%
Chase	149%
Security Pacific	24%
Citicorp	32%
Manufacturers Hanover	29%

During our testimony in February 1982 we stated ten principles that were, in our opinion, "essential to the development of a securities affiliate structure that might achieve the objective of equal competition." Following is a summary of the extent to which FIDA satisfies these principles.

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[1] Sec. Regan, Press Release, July 8, 1983.

1. Only a separately capitalized, arm's-length subsidiary of a bank holding company ("securities affiliate") should be permitted to underwrite and trade in municipal revenue bonds (not including industrial revenue bonds or special assessment bonds).

   FIDA meets this requirement, but see comments to No. 3.

2. The securities affiliate should be the only member of the bank holding company family to engage in securities activities.

   FIDA fails to satisfy. Such securities activities as those involving private placements, commercial paper, financial advisory services, to the extent lawful, may still be performed in the bank even after a depository institution securities affiliate (DISA) has been established. Government and municipal securities activities and brokerage services, however, would have to be transferred to the DISA.

3. No member of the bank holding company complex should be allowed to use its assets or business relationships to assist the securities affiliate in its securities activities.

   FIDA fails to satisfy. Although the provisions of Sec. 23 A and B of the Federal Reserve Act would apply to impose certain limits on credit transactions between the bank and the DISA, these are difficult to monitor and enforce. SIA believes such credit transactions should be prohibited entirely.

4. Deposits should be completely insulated from the risks assumed by a securities affiliate and should not directly or indirectly become of benefit to a securities affiliate.

   FIDA presumably satisfies this requirement as far as possible.

5. The tax treatment of securities affiliates and of banks which are allowed to continue securities activities should be identical to that of broker-dealers and should be provided for specifically in any proposed legislation dealing with these matters.

   To the extent municipal securities activity is conducted in a DISA the tax advantage now enjoyed by banks should disappear. However, the bank's municipal portfolio would still enjoy the existing tax advantage and if there is any traffic between the DISA dealer inventory and the bank portfolio some advantage may accrue to the former.

6. The Bank Holding Company Act should be amended to forbid a securities affiliate from participating in a financing in which any member of the bank holding company complex

is participating (e.g., as supplier of a letter of credit or short term financing or acting as bond trustee), and vice versa.

FIDA fails to satisfy. This is very important to SIA.

7. If the securities affiliate is to operate under its own authority and by its own skill, it should not benefit from customer and other valuable data constantly flowing into and developed by its affiliated banks.

   FIDA fails to satisfy.

8. A securities affiliate should not be permitted to trade on identification with the bank holding company complex.

   FIDA fails to satisfy.

9. If new underwriting powers are to be granted to bank holding companies or banks, appropriate powers in the field of banking should be granted to securities firms.

   FIDA fails to satisfy. However, if a securities firm does not engage in underwriting or dealing in corporate securities, or elects to give up such activity, it could acquire a bank and become a bank holding company.

10. A carefully phased timetable for institution of any such changes should be worked out in the interests of stability.

    FIDA fails to satisfy.

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