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FINANCIAL SERVICES COMPETITIVENESS ACT OF 1995

JUNE 13, 1995.—Ordered to be printed

Mr. LEACH, from the Committee on Banking and Financial Services, submitted the following

SUPPLEMENTAL REPORT

[To accompany H.R. 1062]

CBO COST ESTIMATE

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, May 23, 1995.

Hon. JAMES A. LEACH,
Chairman, Committee on Banking and Financial Services,
U.S. House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has reviewed H.R. 1062, the Financial Services Competitiveness Act of 1995, as reported by the Housing Committee on Banking and Financial Services on May 18, 1995. H.R. 1062 would repeal provisions of the Glass-Steagall Act that restrict the authority of commercial banks to underwrite and sell securities. While these changes could affect the government's spending for deposit insurance, CBO has no basis for predicting whether long-run deposit insurance costs would be higher or lower than current law. Implementing this bill is not expected to affect significantly the administrative costs of the financial regulatory agencies other than the Securities and Exchange Commission (SEC), which would spend an additional $750,000 to $1 million annually, assuming appropriation of the necessary amount.

Because the bill could affect direct spending and receipts, pay-as-you-go procedures would apply. CBO estimates that the net effect of H.R. 1062 on both direct spending and receipts would not be significant.

We expect that this bill would not result in any significant costs to state and local governments.

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BILL PURPOSE

H.R. 1062 would amend a number of banking laws, including the repeal of certain restrictions of the Glass-Steagall Act, to allow banks and securities firms to affiliate through financial services holding companies and to offer a full range of retail and wholesale banking services, as well as underwriting and selling securities.

H.R. 1062 would require financial institutions to conduct banking and securities activities in separate subsidiaries, and would impose strict capital standards on bank holding companies that seek to acquire or retain a securities affiliate. In an effort to maintain the safety and soundness of the insured depository institutions, the bill would create "firewalls" to protect federally insured banks from losses by a security affiliate, and would prevent banks from using insured deposits to subsidize non-bank related activities. A number of safeguards, including restrictions on access to credit and other information, limits on the direct risk to banks and the federal government's deposit insurance funds primarily the Bank Insurance Fund.

The Federal Reserve, the SEC, and state and federal banking regulators—the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and the Office of Thrift Supervision (OTS)—would have responsibility for monitoring and enforcing compliance with the statute. The bill would create an interagency advisory committee to recommend types of financial activities permissible for financial service holding companies and would allow the various regulatory agencies to coordinate examinations and enforcement procedures.

H.R. 1062 also includes a number of provisions affected financial transactions and products. In addition, banks selling nondeposits and are not federally insured.

IMPACT ON THE BUDGET

Deposit Insurance Funds. Enactment of H.R. 1062 could affect the federal budget by causing changes in the government's spending for deposit insurance, but there is not clear basis for predicting the direction or the amount of such changes.

On the one hand, the bill could reduce potential risk to the insurance funds by allowing banks to diversify their sources of income and by helping banks to be more competitive in the world's financial markets. Diversification of income sources could result in lower overall risks of banks, assuming that the expansion of their activities is accompanied by adequate safeguards. H.R. 1062 would create a holding company framework to limit the direct risk of securities activities to banks and the deposit insurance fund. Other firewalls and rules would prohibit or limit certain bank and affiliate transactions.

In addition, repeal of the restrictions of the Glass-Steagall Act would accelerate changes already occurring in the marketplace. For example, some banks now sell mutual funds to their customers and, under limited circumstances, underwrite securities. At the same time, some securities firms offer checking-like accounts linked to mutual funds and extend credit directly to businesses. Expanding permissible activities and would organizations to compete more effectively and efficiently with other financial businesses.

On the other hand, while the bill contains safeguards and other provisions to protect the banks, the benefits do not come without risks. In certain circumstances, a holding company may have an incentive to transfer or divert value away from the insured bank, leaving greater losses for the FDIC if the bank ultimately fails. Ultimately, strong supervision and monitoring by the regulators which history has demonstrated is critical in limiting the exposure of the taxpayer during times of severe financial stress, will be essential to avoid additional losses to the deposit insurance funds.

If losses to the deposit insurance funds were to increase as a result of enactment of this measure, the FDIC would increase premiums that banks pay for deposit insurance. Similarly, if losses were to decrease, banks might pay smaller premiums. As a result, the net budgetary impact is likely to be negligible over time in either case.

Regulatory Costs. The Federal Reserve would be the primary regulator of the new banking organizations. Because the Federal Reserve System remits its budget surplus to the Treasury, with the payment classified as a miscellaneous receipt (or revenue), additional operating costs can potential reduce governmental receipts. Based on information provided by staff members of the Board of Governors of the Federal Reserve System, we estimate that H.R. 1062 would cause no overall change in Federal Reserve costs of processing applications in two offsetting ways. By allowing bank holding companies to own securities firms, subject to the approval of the Federal Reserve, the bill would increase the Federal Reserve's costs for processing the required applications. But that effect would be offset by other cost reductions because the bill also would streamline the processing of certain other applications.

Based on information from the SEC, we expect that additional rulemaking and inspections would cost $750,000 to $1 million annually. The other financial regulatory agencies—OCC, FDIC, and OTS—do not expect any significant net change in their workload as a result of enactment of the legislation.

If you wish further details on this estimate, we will be pleased to provided them. The CBO staff contacts are Mary Maginniss, who can be reached to 226–2860, and Mark Booth, who can be reached at 226–2685.

Sincerely,

JAMES L. BLUM
(For June E. O'Neill, Director).

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