

HOUSE BILL REPORT

SB 6285

As Passed House
March 2, 1994

Title: An act relating to the strengthening and reform of the regulation of financial institutions and securities.

Brief Description: Regulating financial institutions and securities.

Sponsors: Senators Moore and Sellar; by request of Department of Financial Institutions.

Brief History:

Reported by House Committee on:

Financial Institutions & Insurance, February 17, 1994,
DP;

Passed House, March 2, 1994, 94-0.

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: Do pass. Signed by 13 members: Representatives Zellinsky, Chair; Scott, Vice Chair; Mielke, Ranking Minority Member; Dyer, Assistant Ranking Minority Member; Anderson; Dellwo; R. Johnson; Kessler; Kremen; R. Meyers; Schmidt; Tate and L. Thomas.

Staff: Charlie Gavigan (786-7340).

Background: In 1993, several responsibilities of the Department of General Administration and the Department of Licensing were consolidated into a newly created Department of Financial Institutions (DFI). Many of the industries regulated by DFI are also regulated by the federal government. These industries include securities, banks, savings banks, credit unions, and savings and loans.

The securities industry is regulated by the federal Securities and Exchange Commission and the state Division of Securities in DFI. The present system of regulation relies on: (1) statutory registration and disclosure requirements on the issuance of securities to provide reliable information to the marketplace; and (2) licensing and supervision of brokers/dealers, advisors, and other salespersons. Generally, the Securities and Exchange Commission regulates large, national securities offerings and the various stock exchanges, while the state regulates

smaller, intra-state securities offerings and licenses brokers/dealers, advisors, and other salespersons who transact business in Washington State.

Commercial banks are regulated by the federal Comptroller of the Currency (national banks), the Federal Reserve Board, the Federal Deposit Insurance Corporation (FDIC), and the Division of Banks in DFI (state banks). National and state banks that are members of the Federal Reserve System are regulated by the Federal Reserve Board; banks with federal deposit insurance are also regulated by the FDIC.

Federal credit unions are regulated nationally by the National Credit Union Administration and the National Credit Union Share Insurance Fund. State chartered credit unions are regulated by the Division of Credit Unions in DFI, and most participate in a state guarantee association.

Savings and loans are regulated by the Comptroller of the Currency, the FDIC, and DFI (if state chartered).

Summary of Bill: Statutory provisions regulating the securities industry, commercial banks, credit unions, savings banks, and savings and loans are modified. These modifications clarify existing law, make regulation of the financial institutions industry more consistent, deregulate numerous practices of these industries, and provide new authority in several instances.

In the regulation of the securities industry, the major provisions include: (1) clarifying that out-of-state broker-dealers must make more than five sales in Washington to be regulated; (2) updating the definition of securities; (3) allowing broker-dealers to maintain a surety bond in lieu of meeting minimum capital requirements; (4) increasing the dollar amounts at which various financial reporting requirements apply to securities offerings; (5) authorizing DFI to cooperate with other jurisdictions and to participate in the formation of a central depository for information relating to regulation of the securities industry; and (6) changing corporate laws to eliminate the requirement that shareholders of investment companies hold annual meetings and to allow directors of investment companies to serve a term longer than one year.

In the regulation of commercial banks, savings banks, credit unions, and savings and loans, the major changes that generally apply to most or all are: (1) state chartered financial institutions are given any power that their federal counterparts possess; (2) banks and credit unions can make investments above statutory limits with DFI's approval; (3) shareholders who dissent on mergers or other

major changes must pay for one and one half appraisals needed to resolve the dispute; (4) in some cases, directors can amend the bylaws without shareholder approval; (5) reporting requirements to the public and DFI are reduced; (6) directors can be indemnified for liability resulting from their position as directors; and (7) savings banks and savings and loans are given "corporate governance" powers.

Other major provisions include:

Commercial banks: (1) foreign banks may have authority to make loans in Washington without being authorized to do business in this state; (2) banks may pay dividends from retained earnings (previous years' profits); and (3) statutory provisions on satellite facilities (unmanned facilities) are repealed and replaced with legislative intent and findings that these facilities are important to banking.

Credit unions: (1) DFI does not have to approve amendments to credit union bylaws; and (2) a credit union's supervising committee must review account and financial data of the credit union annually rather than semi-annually.

Savings banks: (1) current ambiguity regarding a state savings bank's ability to branch interstate is clarified to allow interstate branching if reciprocal reporting and examination requirements are met; and (2) savings banks are given broad powers to merge with other types of financial institutions, including credit unions.

Fiscal Note: Available.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: This bill is a result of the Governor's regulatory reform initiative. The bill removes unnecessary requirements imposed by statute on financial institutions and the security industry. The objective is to streamline regulation of these industries without compromising safety and soundness principles. The affected industries participated in the drafting of this legislation and support it.

Testimony Against: None.

Witnesses: John Bley, Department of Financial Institutions (supports).