SENATE BILL REPORT
SJM 8005

As of February 19, 2015.

Brief Description: Requesting that Congress enact legislation that would reinstate the separation of commercial and investment banking functions that were in effect under the Glass-Steagall act.

Sponsors: Senators Hasegawa, Chase, Kohl-Welles, Rolfes, Keiser, Darneille, Cleveland, Frockt, Jayapal and Conway.

Brief History:
Committee Activity: Financial Institutions & Insurance: 2/19/15.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Staff: Aldo Melchiori (786-7439)

Background: The Banking Act of 1933, also known as the Glass-Steagall Act, was enacted banning commercial banks from underwriting securities, and establishing the Federal Deposit Insurance Corporation (FDIC), insuring bank deposits. Section 20 of the act applied to member banks, all national banks, and all state-chartered banks that were members of the Federal Reserve System. Section 20 prohibited member banks from affiliating with a business engaged principally in investment banking. This generally prohibited a bank from holding a majority ownership or controlling stake in a securities firm.

In 1986, the Federal Reserve Board (Board), which has regulatory jurisdiction over banking, reinterpreted Section 20, deciding that banks could have up to 5 percent of gross revenues from investment banking business. In 1989, the Board increased the limit to 10 percent of revenues. In 1996, the Board issued a decision permitting bank holding companies to own investment bank affiliates with up to 25 percent of their businesses in securities underwriting.

In 1999 Congress passed the Gramm-Leach-Bliley Act, which repealed certain provisions of the Glass-Steagall Act including prohibitions: (1) against affiliation of any Federal Reserve member bank with an entity engaged principally in securities activities; and (2) against simultaneous service by any officer, director, or employee of a securities firm as an officer, director, or employee of any member bank.

Summary of Bill: The memorial asks that Congress enact legislation that would reinstate the separation of commercial and investment banking functions that were in effect under the

---

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Glass-Steagall Act, prohibiting commercial banks and bank holding companies from investing in stocks, underwriting securities, or investing in or acting as guarantors to derivative transactions, in order to prevent American taxpayers from being called upon to fund hundreds of billions of dollars to bail out financial institutions.

Appropriation: None.

Fiscal Note: Not requested.

Committee/Commission/Task Force Created: No.

Staff Summary of Public Testimony:: PRO: Money is the infrastructure for the economy and we need to protect it. The Glass-Steagall Act (GSA) was enacted in the 1930s, erecting a firewall between commercial banking and investment banking. You could not use hard-working people's deposited savings for investments. GSA deteriorated and was repealed in the 1990s. When it was repealed that meant that the same people could own the commercial and investment banks. They could invest in whatever way they saw fit because the firewall was not there. Taxpayers' dollars and savings were used to invest in non-securitized items by banks**.** Because our savings are FDIC insured this required the federal government to use taxpayers' dollars to bail out the banks. Our savings should not be invested in such types of investments at the risk of those savings and at taxpayers' risk. This may not have caused the crash but taxpayers had to bail out the banks. GSA would redirect the firewall to protect our hard-earned savings. There is a strong movement in Congress on this issue.

CON: There were numerous causes for the Great Recession. Many blame traditional banks but there were many financial companies involved. Mortgage companies are often confused with banks. Many of those companies and banks no longer exist. The surviving banks are heavily regulated and have intense oversight. Going back to GSA would disrupt established and sound businesses practices and increase the cost of financial services.

Persons Testifying: PRO: Senator Hasegawa, prime sponsor.

CON: Denny Eliason, WA Bankers Assn.

Persons Signed In To Testify But Not Testifying: No one.