

# SENATE BILL REPORT

## SJM 8002

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As of January 31, 2018

**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, Conway, Palumbo and Wellman.

**Brief History:**

**Committee Activity:** Financial Institutions & Insurance: 1/30/18.

**Brief Summary of Joint Memorial**

- Requests that Congress enact legislation that would reinstate the separation of commercial and investment banking functions that were in effect under the Glass-Steagall Act.

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### SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

**Staff:** Jeff Olsen (786-7428)

**Background:** After the 1929 stock market crash and Great Depression, Congress was concerned with the use of bank credit for speculation. The Banking Act of 1933, also known as the Glass-Steagall Act (Act), was enacted banning commercial banks from underwriting securities, and also established the Federal Deposit Insurance Corporation, insuring bank deposits. The Act applied to member banks, all national banks, and all state-chartered banks that were members of the Federal Reserve System. The Act 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, effectively separating commercial banking from investment banking.

In 1986, the Federal Reserve Board (Board), which has regulatory jurisdiction over banking, reinterpreted the Act, 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.

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*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.*

In 1999, Congress passed the Gramm-Leach-Bliley Act, which repealed certain provisions of the Glass-Steagall Act including prohibitions: (1) against affiliation of any Federal Reserve member bank with an entity engaged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 Joint Memorial:** The memorial asks that Congress enact legislation that would reinstate the separation of commercial and investment banking functions that were in effect under the 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.

**Creates Committee/Commission/Task Force that includes Legislative members:** No.

**Staff Summary of Public Testimony:** PRO: The separation of commercial and investment banking in the Glass-Steagall Act prevented banks from using savings to invest in the stock market. The repeal of the Glass-Steagall Act gave banks a resource to gamble with people's money. Reform is needed to encourage investments in infrastructure, not financial speculation. The Glass-Steagall Act also established FDIC insurance, protecting deposits up to \$250,000.

**Persons Testifying:** PRO: Senator Bob Hasegawa, Prime Sponsor; Christie David, 32nd LD, LaRouche PAC Policy Committee; Paul Glumaz, PCO 46th District Democrats; Darden Dickson, citizen; Stewart Battle, citizen; Douglas J. Williams, citizen.

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