

OPENING STATEMENT OF
U.S. SENATOR HARRISON A. WILLIAMS

AT HEARINGS ON S. 1933 and S. 2474

ROOM 5302 D.S.O.B.

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Today the Subcommittee on Securities begins three days of hearings on S. 1933, which would permit banks to underwrite revenue bonds, and S. 2474, which would regulate trading in all forms of municipal securities.

S. 1933 was introduced by Senator Froxmire.

This bill is very similar to a bill the Banking Committee approved and the full Senate passed in 1967.

However, it was not acted upon by the House.

S. 1933 presents a very simple question: Should national banks and state member banks of the Federal Reserve System be permitted to deal in and underwrite revenue bonds?

Although the question is simple to state, the right answer is a subject of considerable controversy.

The principal argument in favor of S. 1933 is that permitting banks to deal in revenue bonds will increase competition.

This increased competition, it is asserted, will lead to lower interest costs and thus to significant savings for state and local governments.

A second argument for S. 1933 is that revenue bonds are not essentially different from general obligation bonds which banks already underwrite.

Therefore, because there is no significant difference between the two types of securities, no regulatory purpose or public policy objective is achieved by prohibiting banks from underwriting revenue bonds.

On the other side of the question, the investment banking community argues that the savings municipalities would realize as a result of bank competition in the revenue bond area would be minimal at best.

Furthermore, the securities industry groups argue that whatever the amount of the savings, it would be insufficient to outweigh the conflict of interest and antitrust problems that would be raised by allowing banks to engage in this new activity.

There has been a great deal of discussion lately about banks in the securities business.

In the future, this Subcommittee plans to commence a major study of this subject and its regulatory and competitive implications.

S. 1933 presents us with a sharply focused example of expanding bank securities activities.

These hearings, therefore, should provide us with important insights into how to structure our forthcoming study.

The second bill we have under consideration, S. 2474, would give the SEC regulatory jurisdiction over the activities of all persons dealing in municipal securities, whether they are securities firms or banks.

I think it is interesting that in 1967 when this Committee last considered the revenue bond question, the Securities and Exchange Commission informed us that if the bill were enacted “there would be a significant difference in the nature and extent of regulations of the two principal classes of sellers of these bonds--the banks and the broker-dealer firms”.

We were also told this problem of unequal regulation deserved “further and careful consideration by the Congress and the Commission”.

The purpose of S. 2474 is to eliminate unequal regulation and to establish a uniform Federal regulatory scheme embracing every professional engaged in trading municipal securities.

I think it is time we faced up to the fact that if banks perform the same functions with respect to securities as broker-dealers, there is no regulatory or public policy justification for treating the two types of organizations differently.

In my view, there is far too much unequal regulation in the securities industry already.

The SEC's decision to leave the regulation of variable life insurance to the states is a virtual invitation to regulatory chaos.

And the SEC's decision not to object to banks engaging in the brokerage business by means of automatic investment plans is certain to lead to unequal regulation of persons engaged in essentially the same business.

Regardless of the precise form in which S. 2474 finally emerges from this Committee, I am certain that it will be based on the fundamental premise that all municipal securities dealers, whether banks or broker-dealers, must be required to conduct their affairs under uniform regulations, uniformly applied, with only the narrowest exceptions where existing Federal regulation insures adequate protection of the public.

We have a full three days of hearings before us, and I look forward to a valuable exchange of views.

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