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Statement No. 119

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Statement of the Shadow Financial Regulatory Committee

on

Wholesale Banking Proposal Under H.R. 1062

May 22, 1995

On May 12, 1995, the House Banking and Financial Services Committee adopted legislation (H.R. 1062; the "Leach Bill") that includes reforms to the Glass-Steagall Act. One part of this bill provides for creation of a new kind of uninsured depository institution called a wholesale financial institution ("WFI").

A WFI as defined by H.R. 1062 is a state-chartered bank that is a member of the Federal Reserve System and thus subject to examination and regulation by the Federal Reserve Board under the Federal Reserve Act. Deposits in a WFI are not insured by the FDIC, and WFIs cannot accept initial deposits of \$100,000 or less.

The rationale for such an institution is that, since it does not pose any risk of loss to small depositors or to taxpayers, it could operate without substantial governmental regulation or restriction on its activities. As indicated in Statement 118, paragraph 5, because of the extent of subsidies and implicit guarantees we do not believe this action is currently feasible. The sponsors of the proposal appear to have recognized these problems, and the legislation includes so many restrictions on operations of the WFIs they are unlikely to be able to play a useful role in the financial system.