



CURRENCY

Committee on Financial Services

Michael G. Oxley, Chairman

**For Immediate Release:
Tuesday, April 3, 2001**

Contact: Peggy Peterson at 226-0471

Baker, Bachus Subcommittees to Examine Merchant Banking Rules

The House Financial Services Committee will convene a joint subcommittee hearing to examine the promotion of capital availability to American businesses in the wake of the Gramm-Leach-Bliley (GLB) financial modernization act.

The Capital Markets Subcommittee, chaired by Rep. Richard H. Baker, and the Financial Institutions and Consumer Credit Subcommittee, chaired by Rep. Spencer Bachus, will meet at 10 a.m. Wednesday, April 4, in room 2128 Rayburn House Office Building.

The subcommittees, in ongoing oversight of implementation of the financial modernization act, will review rules issued by the federal banking regulators governing merchant banking activities authorized by the act.

"While the Federal Reserve and other regulators have gone a long way to improve the merchant banking rules that were issued last spring, I question whether a special capital rule and restrictions on merchant banking investments are necessary," said Baker.

"Merchant banking portfolios have consistently performed well over time and the funding they provide to America's businesses -- from the coffee shop to the start-up to the brick and mortar industrial giants -- is an integral part of the growth of our economy," Baker said. "I also have concerns that these rules may contradict the spirit and intent of the two-way street that the Gramm-Leach-Bliley Act set out to create between banks and securities firms."

As established in GLB, depository institutions, which were traditionally barred from non-financial investments, were authorized to participate in merchant banking - private equity fund or direct capital investment in non-financial companies. Allowing banks to participate in merchant banking was to ensure that banks and securities firms could compete on a level playing field in a more open arena of financial services.

"I am concerned that the new rules will go into effect without any input from the new administration and can only be changed by legislation or repeal by the issuing agency," said Bachus.

Initial rules issued by the regulators were met with concern from many in the financial services industry, business community, and Congress. The hearing will provide an opportunity for regulators to discuss revisions made to the rules in response to comments and allow industry representatives to discuss remaining areas of concern.

"As we face a potential economic downturn, ensuring a free flow of capital to U.S. businesses will be increasingly important," said Committee Chairman Michael G. Oxley. "Gramm-Leach-Bliley broke down barriers to competition in the financial services industry. As we review its implementation we need to make sure the act's intent---and the resulting benefit for consumers--- is not stunted by regulatory burdens."

Witnesses scheduled to testify are:

Panel I

Laurence H. Meyer, Governor, Board of Governors of the Federal Reserve System

John D. Hawke, Jr., Comptroller of the Currency, Office of the Comptroller of the Currency

Panel II

Robert J. Kabel, Counsel, Manatt, Phelps and Phillips LLP on behalf of the Bank Private Equity Coalition

John P. Whaley, Partner, Norwest Equity Partners and Norwest Venture Partners on behalf of the American Bankers Association Securities Association

Peter T. Grauer, Managing Director, Leveraged Corporate Private Equity Group, representing Credit Suisse First Boston Private Equity on behalf of the Securities Industry Association and the Financial Services Roundtable

###