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P.L. 106-102, the Gramm-Leach-Bliley Act (initially passed by the House as H.R. 10 and by the Senate as S. 900) is landmark financial services legislation. This comprehensive legislation is very complex and addresses a wide range of issues. It will significantly modernize the delivery of financial services to customers by changing the regulatory structure of financial services providers and rationalizing some of the ways in which they do business. This report provides background analysis of key issues and a short legislative history of this important legislation, together with reference to underlying congressional documents. It will not be further updated. Continuing CRS analysis on various financial issues is available in the CRS Electronic Briefing Book on Banking and Financial Services.
Summary

On November 4, 1999, the 106th Congress passed the Gramm-Leach-Bliley Act by a large bipartisan majority. The resulting public law, P.L. 106-102 (initially passed by the House as H.R. 10 and by the Senate as S. 900) will significantly modernize American finance, thereby bringing it into line with other countries. Enactment of the legislation resolves two decades of controversy in the United States about the nature of financial competition and regulation. This comprehensive legislation is very complex and addresses a wide range of issues.

The Act modernizes the delivery of financial services to customers by changing the regulatory structure of financial services providers and rationalizing some of the ways in which they do business. Central to the Act are the provisions repealing portions of the Glass-Steagall Act of 1933 and the Bank Holding Company Act of 1956 to facilitate affiliation among banks, securities firms, and insurance companies. These changes will permit financial conglomerates to cross-sell a variety of financial products to their customers (“one-stop shopping”), thus broadening the services available to users of financial services. The Act addresses permissible structures for the resulting organizations and how they will be regulated. It incorporates various kinds of consumer protections, including provisions addressing the privacy of personal financial information, and community reinvestment. These issues were very controversial; thus, many of the provisions represent compromises reached in the legislative process after extensive debate.

Because of its scope, this landmark legislation will affect financial services providers ranging from the largest multi-product financial organizations to the smallest, community-based institutions; state and federal financial regulators; community groups; and, especially, the individual consumers of financial services. Much of the way this Act specifically affects financial services will depend on how the regulators write the regulations and how financial services providers and users of financial services respond to the new opportunities. As experience with the Act evolves, it is likely that some fine-tuning of its provisions may result.
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Resolving many years of controversy in the United States about the nature of financial competition and regulation, the 106th Congress passed the Gramm-Leach-Bliley Act by a large bipartisan majority. The resulting public law, P.L. 106-102, will significantly modernize American finance. This comprehensive legislation is very complex and addresses a wide range of issues. The Act consists of seven titles. They address affiliations of banking, insurance, and securities firms and regulation of the resulting organizations; securities and insurance regulation; unitary thrift holding companies (a company that owns one thrift institution); financial privacy; Federal Home Loan Bank System modernization; and other provisions, including changes in the Community Reinvestment Act and many other regulatory changes.

This Act requires a number of regulatory agencies to develop new regulations to carry it out. It also calls for several studies on some of the issues it addresses. Its impact will depend on many of its provisions being adopted by financial markets and users of financial services. As experience with the Act evolves, it is likely that some fine-tuning of its provisions may result. This report provides an overview of the nature and some possible consequences of this landmark legislation. It looks at this measure from the perspective of its enactment. Continuing CRS analysis of various financial issues is available in the CRS Electronic Briefing Book on Banking and Financial Services.

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1 On November 4, 1999, the Senate approved the Conference Report on S. 900, by 90-8. The House followed within hours by a vote of 362-57. President Clinton signed the measure on November 12, 1999. Financial modernization legislation initially passed the House as H.R. 10 and the Senate as S. 900.

2 In this report, the use of the term “bank” incorporates savings associations and similar organizations generically. The Act contains a number of technical terms, many of which are identified in CRS Report RL30039, Financial Institution Reform and Diversification: A Legislative Glossary of Often Used Terms, by F. Jean Wells and William Jackson.

3 Even before the legislation was signed, bills had been introduced to modify privacy provisions in it, H.R. 3320 and S. 1903. Subsequently, S. 1924 was introduced.

What Does This Legislation Do?

This Act modernizes the delivery of financial services to customers by changing the regulatory structure of financial services providers and rationalizing some of the ways in which they do business. In short, the Act:

- repeals portions of the Glass-Steagall Act of 1933 and the Bank Holding Company Act of 1956 to facilitate affiliation among banks, securities firms, and insurance companies, permitting financial conglomerates to cross-sell a variety of financial products to their customers ("one-stop shopping"),
- provides for umbrella regulation of the resulting financial holding companies vested in the Federal Reserve,
- preserves the role of federal and/or state bank, securities and insurance regulators over their respective functions inside financial holding companies,
- allows national and state banks to create financial subsidiaries for diversification into insurance sales and full-service securities activities under specified conditions,
- provides consumer safeguards such as more disclosure of terms and conditions for consumer financial products, for privacy of nonpublic financial information, and against fraudulent access to financial information,
- expands bank access to and the mission of the Federal Home Loan Banks,
- changes the application of the Community Reinvestment Act of 1977 (CRA) by relieving many smaller banks from frequent examinations, requiring banking organizations to be compliant in order to diversify, and mandating disclosure of CRA-related agreements between banks and many nongovernmental entities ("CRA sunshine"), and
- includes other regulatory improvements.  

Affiliations Among Financial Services Firms and Their Regulation

The Gramm-Leach-Bliley Act represents a significant change from preceding law since it permits affiliations among banking, securities, and insurance companies. This change is accomplished by repealing or overriding sections of the Glass-Steagall Act, the Bank Holding Company Act, and state laws preventing such affiliations. These financial services organizations will be organized in a holding company framework, although bank subsidiaries ("financial subsidiaries") will be permitted to engage in

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some nonbanking activities not previously allowed.\(^6\) Besides the permissible financial activities enumerated in the legislation, it provides a mechanism between the Federal Reserve (the Fed) and the U. S. Department of the Treasury (the Treasury) to decide what is an appropriate new financial activity.

One of the many contentious issues during the path to enactment was the question of whether new activities could be conducted in financial subsidiaries of national banks or whether they required a holding company form of organization. In October 1999, the Fed and Treasury proposed a compromise which is reflected in the legislation. P.L. 106-102, therefore, provides some choice whether to place activities such as securities underwriting in a financial subsidiary or in a holding company affiliate of a national bank. Both national and state-chartered banks are authorized to form financial subsidiaries. Activities such as insurance underwriting, or real estate investment or development activities (unless otherwise expressly permitted), are prohibited in these subsidiaries. Five years after enactment, the Fed and Treasury may review whether merchant banking activities should be permissible for financial subsidiaries.\(^7\)

The Fed will be the umbrella supervisor for financial holding companies owning a bank. Under its “streamlined” supervision, the Board will focus on the consolidated risk position of the entire holding company while relying on information from supervisors of its components.\(^8\) It is thus limited in its day-to-day authority to oversee the functionally regulated nonbanking subsidiaries of these holding companies. Primary supervision of all components, be they banking, insurance, or securities firms, remains with their federal or state line supervisor. National banks with financial subsidiaries remain regulated by the Office of the Comptroller of the Currency. Safeguards for financial safety and soundness apply throughout the new holding companies. In particular, the so-called “‘safety and soundness’ firewalls” required of today’s bank holding companies are extended to protect the banks within financial holding companies. Firewalls are also legislated for financial subsidiaries of banks.

**Securities**

Under functional regulation, which provides for regulation by activity rather than by institution, securities regulators will generally regulate securities activities no matter where they occur. The Act retains certain exemptions for banks to facilitate activities in which they have traditionally engaged.\(^9\) To continue to provide these

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\(^7\) For additional background on merchant banking, see CRS Report RL30328, *Financial Reform Legislation in the 106th Congress: Merchant Banking*, by Gary Shorter.


\(^9\) Exemptions, with certain restrictions, “relate to third-party networking arrangements, (continued...
activities, banks need not register as broker-dealers. New hybrid products come under rulemaking of the Securities and Exchange Commission (SEC). Prior to commencing a rulemaking, the SEC shall consult with and seek the concurrence, of the Federal Reserve Board. A dispute resolution process is provided for through the U.S. Court of Appeals. If an entity chooses to become an “investment bank” (broker-dealer) holding company, then it would be regulated by the SEC. The Act also amends bank investment company (mutual fund, etc.) activities to make banks subject to the same regulation as other investment advisers and to disclose that advised funds are not federally insured.

Insurance

The new Act includes a number of provisions intended to maintain the state level of regulation of the business of insurance. It reaffirms the McFarran-Ferguson Act to that effect. The Act also mandates compliance with state insurance licensing requirements. It generally forbids national banks from underwriting insurance, including title insurance. Moreover, national banks generally cannot sell title insurance unless they were doing so on the date of enactment, or unless state banks in the same state may do so, and then only to the extent and in the manner permitted for those state banks.

Generally, state laws may not discriminate against banks and their affiliates either in becoming affiliated with insurance companies or engaging in insurance activities. Federal banking agencies and state insurance regulators are to coordinate their regulatory efforts. With respect to insurance sales, 13 “safe harbors” generally protect certain state laws from federal preemption: for example, regulations requiring banks to disclose that insurance products are not federally insured. Federal banking agencies must issue consumer protection regulations covering insurance sales by banking entities. However, inconsistent state laws will not be subject to automatic federal preemption. For state laws enacted after September 3, 1998, a new dispute resolution procedure is set forth in the legislation.

The Act encourages states to allow mutual insurance companies to reorganize into mutual holding companies with stock ownership. In order to encourage states to provide for a uniform (interstate) insurance agent and broker licensing system, the Act authorizes the creation of the National Association of Registered Agents and Brokers (NARAB) to provide a mechanism for uniform licensing of insurance.10

9(...continued)

trust activities, traditional banking transactions such as commercial paper and exempted securities, employee and shareholder benefit plans, sweep accounts, affiliate transactions, private placements, safekeeping and custody services, asset-backed securities, derivatives, and identified banking products.” Conference Report, pp. 163-164.

10 See Title III, Subtitle C, National Association of Registered Agents and Brokers, beginning on page 88 of the Conference Report.
Privacy Provisions

Privacy proposals have been much debated. Such provisions will affect how financial conglomerates may use personal financial information. Combining several financial services in one company provides expanded opportunities for cross-selling. That is important to financial services providers wishing to diversify and may afford customers better product information than they would have otherwise. At the same time, there has been increasing concern about how personal information is used.

Financial institutions are required to establish privacy policies and disclose them at the start of a customer relationship and not less than annually thereafter. Such policies include disclosing how the institutions share information with affiliates as well as with third parties. With some exceptions, these institutions are prohibited from disclosing nonpublic personal information to nonaffiliated third parties unless they have given consumers the opportunity to “opt out.”11 They are also prohibited from disclosing customer account numbers to nonaffiliated third parties for marketing purposes such as telemarketing, direct mail marketing, or other marketing through electronic mail. The law also sets forth how its privacy provisions interact with state law and the Federal Credit Reporting Act. Regulators must promulgate implementing regulations.12

Prohibitions on pretext calling under law (obtaining customer information by false pretenses) are enhanced. A medical and health information privacy provision that was included in the House version of the legislation was deleted in Conference.13

Federal Home Loan Bank System Modernization

The mission of the government-sponsored Federal Home Loan Banks is expanded to include support for small business, small farms, and small agribusiness lending engaged in by “community banks.” Commercial banks with less than $500 million in assets, of which there are about 8,000, qualify as “community banks” under P.L. 106-102. The Act rationalizes the capital and financing of the Federal Home Loan Banks as well.14

11 In Title V, the law contains general and specific exceptions which apply here, some of which reference other federal or state law. The exceptions include certain joint marketing agreements.


13 See CRS Issue Brief IB98002, Medical Record Confidentiality, by C. Stephen Redhead and Gina Marie Stevens, Co-Coordinators.

14 See entry on Federal Home Loan Banks by Barbara Miles in the CRS Electronic Briefing Book on Banking and Financial Services.
Other Major Provisions

The Act contains other provisions designed to improve financial regulation and practices. Of particular interest are the Community Reinvestment Act and the unitary thrift holding company provisions.

Community Reinvestment Act. The Community Reinvestment Act provides that banks and thrifts must meet the credit needs of their entire communities. P.L. 106-102 affects that Act in several ways:

- at the time an organization applies to establish a financial services holding company, its bank(s) must have at least a “Satisfactory” CRA rating as of its most recent CRA examination, and a bank or financial holding company cannot commence new activities authorized under the Act unless the bank or bank affiliate of the holding company has at least a “Satisfactory” CRA rating as of its most recent CRA examination,

- small banks with less than $250 million in assets have the time between routine CRA examinations extended to 4 or 5 years depending on the rating on their most recent CRA exam, and

- CRA agreements made between banking organizations and nonbank parties in connection with CRA have to be made public, and annual reports on uses of the money and other resources involved in the agreement are required (CRA “sunshine” provisions).

The Gramm-Leach-Bliley Act states that nothing in it is to be construed to repeal any provision of the Community Reinvestment Act of 1977.15

Banking and Commerce: Unitary Thrift Holding Companies. The extent to which financial and commercial (for example, manufacturing) firms should be allowed to affiliate has been debated over the history of the development of the legislation. Until enactment of P.L. 106-102, there were no restrictions on ownership of a specific type of savings and loan holding company — the unitary thrift holding company (UTHC). Through this specialized holding company, a commercial firm could, in effect, own or affiliate with a single savings association. Under the new law, there are limits put on the commercial activities and affiliations of new UTHCs. UTHCs existing as of May 4, 1999, and applicants that had filed for approval by that date, retain their authority to engage in nonfinancial activities.

Implications and Implementation of the Act

This Act is generally expected to enhance capital formation in the national economy. Because of the range of provisions in this comprehensive legislation, it will affect financial services providers ranging from the largest multi-product financial

organizations to the smallest, community-based institutions; state and federal financial regulators; community groups; and, especially, the individual consumers of financial services. Much of the way this Act actually affects financial services will depend on how the regulators write the regulations and how the marketplace responds to the new opportunities.

Markets have already adopted many of the changes in financial conduct that this Act ratifies. In a sense P.L. 106-102 recognizes marketplace realities in a world that is much changed from that of the 1930s when the Glass-Steagall Act and related securities measures were enacted, or the 1950s when the Bank Holding Company Act was first legislated. It also allows for flexibility in providing for future changes in financial practices and their regulation. Globalization and technological innovation in finance have been major driving forces. Domestic and foreign banking, insurance, and securities services continue to become less compartmentalized.\(^\text{16}\) Such changes, in turn, have effects on all parts of the financial system.

**Users**

Accessibility to services, the range of services, their pricing, and possible influences of consumer privacy are important aspects of the legislation’s potential effects on users.

The measure clearly stimulates competition in the provision of financial services of all kinds. The array of products available to any given customers will become greater, perhaps more convenient to obtain, and perhaps less expensive. Consumers of financial services will feel its impact in different ways. Larger businesses should benefit from being able to receive all their financial services from one provider. Smaller businesses and individuals may benefit from some economies of transactions. That could result in lower prices on some services for individual consumers. On the other hand, consumer groups have expressed concern that some changes could result in higher prices to consumers for checking accounts and small loans, for example.\(^\text{17}\)

A number of provisions are also designed to protect consumer privacy. At the same time, some have expressed concern that customers may experience problems with privacy of their financial information.\(^\text{18}\) Many of the effects of the privacy provisions will not be known until financial providers adapt their practices to the new law and its yet to be promulgated implementing regulations. How these federal privacy mandates will interact with state initiatives is likely to be tested by interested parties. Other initiatives that could affect actual experience include separate federal and/or state legislation, the President’s directive to the National Economic Council to work with other agencies to study information sharing as mandated in P.L. 106-


\(^{18}\) Ibid.
102, and the call to bankers by the President of the American Bankers Association “to make privacy their top priority.”19 Some of these initiatives are an attempt to speed the process embodied in the legislation that requires promulgation of new privacy regulations within a year, and requires a study by the Secretary of the Treasury in conjunction with other regulators before 2002. 20

Providers

The first impact of this legislation may well be felt on Wall Street as merger and acquisition deals take advantage of this legislation. Institutions can also broaden their financial services by starting new activities themselves or by forming cross-marketing arrangements with otherwise independent providers of the services. In this way smaller institutions can benefit with or without their own financial subsidiaries.

This Act is expected to further accelerate the trend already underway to consolidate like kinds of financial services providers and to enhance the ability to merge across industry lines. 21 Some cross-industry combinations were permissible before now in the United States, especially insurance and securities affiliation. However, banking and insurance companies have not been able to merge and securities companies have not been able to own banks. The Act ends almost all restrictions limiting the kinds of financial companies that could combine. Individual combinations still remain subject to antitrust, safety and soundness, and community reinvestment standards. Otherwise the new law opens the spectrum of possibilities of combinations to the same extent as in many other countries.

The number of providers nationwide is expected to shrink. However, many provisions in P.L. 106-102 are designed to continue or even enhance the viability of smaller, community-type providers. Specific examples include the community bank designation of borrowers from the Federal Home Loan Banks and the exemption of small community banks generally from frequent routine Community Reinvestment Act examinations. Small banks may also pick up some business shed by the bigger banks as well as some customers who choose smaller providers for individual, customized services. Even in Europe, small, often specialized providers, coexist with large financial conglomerates.

Independent insurance agents may find their competitive position weakened by the legislation. However, a somewhat counterbalancing provision of the Act provides for functional regulation of insurance sales by state regulators who have traditionally


20 These provisions are found in the Conference Report: Sections 504 and 510, p. 106 and 112 (effective date); Section 508, p. 109 (study).

understood the nature of the independent agency system. Securities firms that wish to remain independent will find more competition awaits them because of the ability of banks and banking organizations to underwrite securities of all kinds. Additionally, financial holding companies may now engage in merchant banking, heretofore allowed only for securities firms. On the other hand, securities firms may now buy banks or have their own form of holding company regulated by the SEC if they do not buy banks. Independent securities houses will now find their bank competitors’ securities operations become more functionally regulated by the SEC, removing a perceived competitive inequality.

Regulators

The breadth of this legislation calls for many new coordinative efforts among federal and state regulators who are charged with writing the rules to carry out the Act. Not only studies and reports but interagency joint and separate regulations are called for in quantity. The duties of many regulators explicitly change with this law as well. Indeed, a new regulator, the National Association of Registered Agents and Brokers, is authorized. Many of the Act’s provisions will be expressed through rules, regulations, and interpretations by the regulators, a number of which may well be tested in court cases.

The regulators are also the front line in dealing with fallout if anything adverse should happen to these institutions. For example, if a gigantic financial conglomerate should experience severe losses or operational difficulties, that would test the regulatory system in new ways. A particular concern has been that institutions could grow so large that should they experience adverse conditions, they might be perceived as “too big to fail” and thus strain government resources to deal with them.

How the Legislation Developed in the 106th Congress

After almost two decades of considering what to do about the Glass-Steagall Act and allied issues, the 106th Congress moved swiftly on legislation. It completed action on what resulted in P.L. 106-102, the Gramm-Leach-Bliley Act, during the first session.

In the 106th Congress, the Chairmen of the House and Senate Banking Committees both initiated early legislative action to build on activity from the 105th Congress. Within weeks of the new Congress having convened, both Committees had marked up financial modernization legislation. On March 4, 1999, the Senate Banking Committee marked up a Committee Print that was then introduced as S. 900, the Financial Services Modernization Act of 1999. The following week, the House Banking Committee approved H.R. 10, the Financial Services Act of 1999. That bill was then sequentially referred to the House Commerce Committee.

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22 For a chronology of congressional activity since the mid-1960s to change the Bank Holding Company Act of 1956 and the Glass-Steagall Act of 1933, see Decades of Efforts to Change the Glass-Steagall Act, CQ Weekly, October 23, 1999, p. 2505.
Between the time that H.R. 10 left the House Banking Committee and the House Commerce Committee acted, the Senate passed an amended version of S. 900, May 6, 1999, by a vote of 54-44. Following Senate floor action, the House Commerce Committee marked up H.R. 10 amended, June 10, 1999. Shortly thereafter the House Rules Committee resolved differences between the two versions of H.R. 10 and sent it to the House floor where it was approved July 1, 1999, 343-86. H.R. 10 and S. 900 then went to Conference under the bill number S. 900. The Conference Report of November 2, 1999 (H. Rept. 106-434), was approved two days later, first by the Senate and shortly thereafter the House. On November 12, 1999, the President signed the bill into law.\textsuperscript{23}

Congressional documents underlying P.L. 106-102 include the following:

Printed in the Congressional Record, November 2, 1999, H11255-H11303.


