Department of Legislative Services

Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

Senate Joint Resolution 6 (Senator Muse)
Finance

Reinstatement of the Separation of Commercial and Investment Banking Functions

This joint resolution urges the U.S. Congress to enact legislation that would (1) reinstate the separation of commercial and investment banking functions that were in effect under the Glass-Steagall Act and (2) prohibit commercial banks and bank holding companies from investing in stocks, underwriting securities, or investing in or acting as guarantors to derivative transactions.

Fiscal Summary

State Effect: The joint resolution does not directly affect State operations or finances.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law/Background: On January 14, 2015, the Return to Prudent Banking Act of 2015 was introduced in the U.S. House of Representatives. The Act has several provisions that serve to create a separation between commercial banking and investment banking institutions. Among these provisions, the Act (1) prohibits specified individuals from affiliating with both commercial banking and investment banking institutions; (2) revives the Banking Act of 1933 (Glass-Steagall Act); and (3) makes technical and conforming changes to the Gramm-Leach-Bliley Act (GLB Act). The 21st Century Glass-Steagall Act of 2015, introduced on July 7, 2015, in the U.S. Senate, contains similar provisions.

As a response to the Great Crash of 1929, the Glass-Steagall Act was passed in 1933 with the intention of placing a barrier between commercial and investment banking. Among its provisions was a prohibition on commercial banks from underwriting securities, effectively forcing a bank to choose between being a commercial banking institution and an investment banking institution. In 1956, the Bank Holding Company Act was passed as an extension of the Glass-Steagall Act and placed further restrictions on commercial banking institutions, including a prohibition on underwriting insurance. In 1999, the Gramm-Leach-Bliley Act repealed the Glass-Steagall Act and, thus, allowed financial institutions to provide a wider range of services.

Additional Information

Prior Introductions: HJ 8 of 2014 received a hearing in the House Rules and Executive Nominations Committee, but no further action was taken. Its cross file, SJ 8, was referred to the Senate Rules Committee, but no further action was taken.

Cross File: HJ 2 (Delegate Carter, *et al.*) - Rules and Executive Nominations.

Information Source(s): Department of Labor, Licensing, and Regulation; www.congress.gov; Department of Legislative Services

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md/kdm

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