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United States Senate

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Dear Colleague,

Today, I joined with Senators McCain, Cantwell, and King to introduce the 21st Century Glass-Steagall Act to separate depository banks from more risky financial institutions, like investment banks and swaps dealers. We invite you to join as a cosponsor.

In 1933, as a response to the economic crash of 1929, Congress passed the Banking Act ("Glass-Steagall"). Glass-Steagall is best known for separating depository banks from investment banks. The idea was to separate the risky activities of investment banks from the core depository functions that consumers rely on every day.

Starting in the 1980s, the Glass-Steagall regulations were sharply undercut by regulators at the Federal Reserve and the Office of the Comptroller of the Currency as they reinterpreted longstanding legal terms in ways that slowly broke down the wall between investment banking and depository banking. By the time Congress passed the Gramm-Leach-Bliley Act repealing the core provisions of Glass-Steagall in 1999, the act was already laden with loopholes and substantially weakened. Because of the regulatory interpretations, simply re-passing the original Glass-Steagall would not accomplish its original goals.

The 21st Century Glass-Steagall Act returns to a simpler, more sensible banking system by:

- Separating traditional banks that have savings and checking accounts and are insured by the FDIC from riskier financial services, such as investment banking, insurance, swaps dealing, and hedge fund and private equity activities.

- Prohibiting traditional depository banks from investing in structured and synthetic financial products, such as complex derivatives and swaps.

- Reversing the regulatory interpretations of the 1980s and 1990s that were used to undermine Glass-Steagall's protections. In particular, the new law specifies what activities are considered the "business of banking" to prevent national banks from engaging in risky activities. The bill also prevents non-banking activities from being considered "closely related" to banking.

- Instituting a five-year transition period and penalties for violating the law.

By separating depository institutions from riskier activities, the 21st Century Glass-Steagall Act will also help bring an end to "Too Big To Fail" by making large financial institutions smaller and preventing institutions that use federal depository insurance from engaging in high-risk activities. Although some financial institutions might be quite large, they would no longer be intertwined with traditional depository banks, reducing the implicit government guarantee of a bailout.

If you have any questions or would like to cosponsor, please have your staff contact Dan Geldon in my office at 4-2215.

Sincerely,

Elizabeth Warren

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