21st Century Glass-Steagall Act of 2013
Frequently Asked Questions

What does the bill do?

Like its 1933 predecessor, the 21st Century Glass-Steagall Act separates traditional banks that offer 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. The bill also prohibits traditional depository banks from investing in structured and synthetic financial products, like complex risky derivatives and swaps. This bill returns basic banking to the basics.

The 21st Century Glass-Steagall Act also clarifies provisions within various banking laws that were used by federal regulators in the 1980s and 1990s to undermine Glass-Steagall's protections. In particular, it specifies more clearly what activities are considered the "business of banking" to prevent national banks from engaging in risky activities. The bill also bars non-banking activities from being treated as "closely related" to banking. Over time, the Office of the Comptroller of the Currency (OCC) and the Federal Reserve used these broad terms to allow traditional banks and bank holding companies to engage in a wider and wider range of high-risk activities. This bill would end those practices.

Finally, the 21st Century Glass-Steagall Act includes a 5-year transition period to separate their activities. These financial institutions can also petition for two six-month extensions.

How is the new bill different from the original Glass-Steagall?

The 21st Century Glass-Steagall Act makes some important changes to modernize the original Glass-Steagall Act. In 1933, as a response to the crash of 1929, Congress passed the Banking Act (Glass-Steagall). The idea was to divide the risky activities of investment banks from the core depository functions that consumers rely upon every day. Starting in the 1980s, regulators at the Federal Reserve and the Office of the Comptroller of the Currency reinterpreted longstanding legal terms in ways that slowly broke down the wall between investment and depository banking, cutting the legs out from under the original Glass-Steagall. After 12 attempts at repeal, Congress passed the Gramm-Leach-Bliley Act repealing the core provisions of Glass-Steagall in 1999.

The original Glass-Steagall separated depository institutions from investment banking and insurance. Since that time, however, the financial markets have become much more complicated, with new types of financial institutions emerging – swaps dealers, hedge funds, private equity – and new types of complex and risky financial products emerging, such as structured and synthetic products. The 21st Century Glass-Steagall Act separates depository institutions from all of these more risky financial services and prohibits their investment in risky structured and synthetic products.

In addition, since the original Glass-Steagall, federal regulators in the Office of the Comptroller of the Currency and Federal Reserve have expanded the types of activities that depository banks

can engage in. By defining the terms "business of banking" and "closely related" activities broadly, these regulators allowed for greater interconnections between traditional depository banking and riskier financial activities. The 21st Century Glass-Steagall Act clarifies the meaning of these terms so they cannot be expanded so broadly to undermine critical protections.

Will a new Glass-Steagall end Too Big to Fail and implicit government guarantees?

By itself, the 21st Century Glass-Steagall Act does not end Too-Big-to-Fail, but it moves the financial institutions in the right direction by making them smaller and safer. By separating depository institutions from riskier activities, large financial institutions will shrink in size and won't be able to rely on federal depository insurance as a safety net for their high-risk activities. Because the bill does not establish an asset cap on the size of financial institutions, some financial institutions might still be quite large, but they will not be able to engage in both depository and high-risk activities, making it less likely the government would be called on to rescue them. This legislation would reduce risk in the financial system, dial back the likelihood of future financial crises, and help bring an end to a status quo that has allowed large Wall Street institutions to reap the benefits of risky activities while saddling taxpayers with the potential costs.

Why do we need Glass-Steagall?

Huge financial institutions continue to take on extraordinary risks, while they continue to use federally guaranteed deposits and an implicit government guarantee to pump up their profits. There is no single bullet that will stop this behavior, but a new Glass-Steagall can help make banking "boring" by making sure that the risky activities don't take place in a regular depository bank and that the government isn't implicitly subsidizing those risky activities. The bill also makes it less likely that banks become extremely large, which will help prevent future bailouts. Glass-Steagall is an important component of reform.