HOUSE BILL REPORT
HB 1211

As Reported by House Committee On:
Financial Institutions & Insurance
Appropriations

Title: An act relating to creating the financial services regulation fund.

Brief Description: Creating the financial services regulation fund.

Sponsors: Representatives Benson, Simpson, Barlean and Hatfield; by request of Department of Financial Institutions.

Brief History:
Committee Activity:
Financial Institutions & Insurance: 1/30/01 [DP];
Appropriations: 2/15/01, 2/20/01 [DP].

Brief Summary of Bill

- The three funds that are currently used to support the operations of the Department of Financial Institutions are combined into a single, unified fund.

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: Do pass. Signed by 11 members: Representatives Benson, Republican Co-Chair; Hatfield, Democratic Co-Chair; Bush, Republican Vice Chair; McIntire, Democratic Vice Chair; Barlean, DeBolt, Keiser, Miloscia, Roach, Santos and Simpson.

Staff: Thamas Osborn (786-7129).

Background:

The operation of the Department of Financial Institutions (DFI) is currently supported by three discrete funds: (1) the bank examination fund, (2) the credit union examination fund, and (3) the securities regulation fund. The bank and credit union funds are dedicated, non-appropriated funds. All monies received pursuant to those activities is deposited in their respective funds. Thirteen percent of the money received by the Division of Securities is deposited in the securities regulation fund, with the balance going to the state general fund. The dedicated, non-appropriated status of the bank and credit union funds allows DFI to respond to regulatory developments without waiting for legislative appropriation.

The current system of separate, discrete funds reflects a time when the regulatory lines between the various financial institutions were distinct and separate. With financial modernization and globalization, these lines have become blurred, requiring DFI to pursue functional regulation across traditional divisional lines. For example, securities analysts will be used to determine compliance of broker/dealers located at banks, and banks examiners will be used to determine whether debenture companies are in unsafe or unsound condition.

Summary of Bill:

A new financial services regulation fund is created, which is dedicated, non-appropriated, and the sole fund for the Department of Financial Institutions. All money received by the various divisions is deposited into the unified fund, with the exception of the Division of Securities, which will deposit 13 percent of money received into the unified fund. The remaining 87 percent of the money received by the Division of Securities will continue to be deposited into the general fund. The current level of fees, assessments and fines is unchanged.

Repeals RCW 43.320.120, thus eliminating the credit unions examination fund as a separate fund.

Repeals RCW 43.320.130, thus eliminating the securities regulation fund as a separate fund.

Appropriation: None.

Fiscal Note: Requested on January 29, 2001.

Effective Date: July 1, 2001

Testimony For: Allowing the department to consolidate its three separate operating funds into a single, unified fund, will simplify the budgeting process and enable the department to operate more efficiently. The blurring of the distinctions between the various regulatory functions of the department makes the maintenance of the separate funds outmoded and cumbersome. It is more efficient to have a simplified funding system that readily accommodates the ‘crossover’ that occurs between the three regulatory divisions of the department.

Testimony Against: None

Testified: John Bley, Director, Department of Financial Institutions.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: Do pass. Signed by 31 members: Representatives Sehlin, Republican Co-Chair; H. Sommers, Democratic Co-Chair; Barlean, Republican Vice Chair; Doumit, Democratic Vice Chair; Lisk, Republican Vice Chair; Alexander, Benson, Boldt, Clements, Cody, Cox, Dunshee, Fromhold, Gombosky, Grant, Kagi, Keiser, Kenney, Kessler, Lambert, Linville, Mastin, McIntire, Mulliken, Pearson, Pflug, Ruderman, D. Schmidt, Schual-Berke, Talcott and Tokuda.

Staff: Patricia Linehan (786-7178).

Summary of Recommendation of Committee On Appropriations Compared to Recommendation of Committee On Financial Institutions & Insurance:

No new changes were recommended.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on July 1, 2001.

Testimony For: This legislation merges the original three DFI funding sources into one dedicated and non-appropriated fund. The DFI regulates industries that are in competition with each other, and the individuals in those industries are concerned with the fair manner in which DFI implements the statutes. They don't want to cross subsidize each other in terms of their regulation. The DFI policy states that each industry fund itself. The banking fund has precise statutory direction that states that banks shall pay for the actual cost of their examinations. Industry regulation operates in a financial market place that changes quickly and regulators need to respond quickly to those changes. Today, there is a retention and recruitment problem in the Securities Division and having one non-appropriated fund would allow DFI to respond quickly to different marketplace threats. The financial institutions who have signed up in favor of this legislation are the ones who actually pay the bills, so they are all very supportive of this legislation.

Testimony Against: None.

Testified: Representative Benson, prime sponsor; and John Bley, Director, Department of Financial Institutions.