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Moderator: JOHN M. FENTON
Presenter: STEVE GLAZE†
Moderator: JOHN M. FENTON

Summary: This is a chance to network with your peers and friends. A Washington “insider” will also discuss the latest insurance topics that are timely and related to Washington.

Mr. John M. Fenton: I’m from Tillinghast-Towers Perrin and the outgoing chairperson of the Product Development Section. Our speaker is Steve Glaze, a counsel with the law firm of Davis & Harman, where he concentrates on tax, employee benefits, and legislative issues. Until 1996, he served as tax counsel to Senator David Pryor (D-AR), a member of the Senate Finance Committee, and a former chairman of the Finance Subcommittee on the IRS Oversight and Private Pension Plans. During his tenure with Senator Pryor, Steve was involved in developing, drafting, and building consensus for a number of measures, including the Pension Simplification Act, the Taxpayer Bill of Rights II, The S Corporation Reform Act, and the American Family Owned Business Act.

Steve’s going to be talking about a variety of issues, including the impact of the new tax law, such things as these new state tax provisions, the impact of a lower capital gains tax rate, and some of the IRA provisions that have an impact on our business. He’ll also be talking about developments in the corporate-owned life insurance (COLI) and bank-owned life insurance (BOLI) markets. Those are always hot topics in Washington. He’ll be touching on bank assurance and the feasibility of the banking and insurance industries working together in the future. He’s also going to offer some perspectives on how Washington, D.C., works.

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†Mr. Glaze, not a member of the sponsoring organizations, is Counsel for Davis & Harman in Washington, DC.

Mr. Steve Glaze: I represent, in the interest of full disclosure, the American Society of Pension Actuaries and I believe them to be some of the more forward thinking clients that I have. We're working on legislation to promote savings, which brings up my approach. My challenge is for you and your business to think about and integrate those things with somebody like me who spends everyday in Washington focusing on the White House, the House, the Senate, and tax issues. The challenge is for you is to take from me a snapshot of what is going on in Washington and integrate it into your thinking and your business. We all have constitutional rights and some would say a responsibility to have opinions about policy and politics. It's hard to keep opinions out of any speech, so you may pick up on some of my opinions as I talk. But, I hope that you will integrate whatever you can into your business and your thinking in the future.

I want to go from the big picture on taxes down to a photo snapshot on some smaller issues. I'll touch briefly on the things that John mentioned in the introduction. You'd think that after passage of the largest tax cut in 16 years that Congress would be in a satisfied, self-congratulatory mood, but nothing could be farther from the truth. Unrest with the tax code is at a fever pitch at this point, especially in Washington, because Republican pollsters are telling the Republican-controlled Congress that taxes are the number one issue on voters' minds. The real problem is what do you do about this problem? In the future, you can bet that the good, the bad, and the ugly ideas, the old and new ideas are going to be paraded out and will create a little bit of confusion. I want to try to break down that confusion for you.

Broadly speaking, the Congress is on two tracks on taxes. The first track is tax cuts in the current system and making the current system work. The second track is on fundamental tax reform. The confusion can be illustrated best by a statement made recently by Speaker Newt Gingrich (R-GA) who said that we should have tax cuts every year during peace time. In the same breath, he also said we need to have dramatically involved tax reform. Are those two different things? What are we talking about here? Where are we going? I'd like to cite some examples about what's going on today along these two tracks.

The first is on a tax cut in the current income tax system. The Joint Tax Committee is rumored to be, and it's fairly certain that they are already, drafting a tax cut package for 1998. These tax cuts will include estate taxes, capital gains taxes, and changes in the alternative minimum tax. We fully expect the Senate to pass an amendment called the Coverdell Amendment (named after Senator Paul Coverdell (R-GA) on education IRAs). I always laugh when I think of the term education IRA. The Coverdell Amendment expands on the current education IRA that was just

passed in August. I'll go into a little bit more about that later, but it is a sign that the Congress is working on the current tax system and doing tax cuts today.

Another bill passed recently is a House Ways and Means Committee Technical Corrections Bill to address the unintended or intended mistakes of the Taxpayer Relief Act of 1997. They thought it was important to correct some of those items that were mistakenly neglected during the three days of writing the Taxpayer Relief Act of 1997. The staff probably shouldn't be blamed very much because there are a myriad of tax technical corrections on the plate.

I want to switch to the tax reform track. We hear every day about the "Scrap-the-Code" tour that Representative Billy Tauzin (R-LA) and House Majority Leader Dick Armey (R-TX) are taking around the country. They talk about a national sales tax and/or flat tax. A pitch is made that we should scrap the current code. You'll hear from the House Ways and Means Committee chairman that he would like to rip the IRS out by its roots, which is a fairly dramatic reform statement. You can also now see legislation being introduced to sunset the Internal Revenue Code by the year 2000. In fact, Speaker Gingrich and the Senate Majority Leader Trent Lott (R-MS) have signed pledges to sunset the code by the year 2000. By early next year, I fully expect there to be many, many plans for fundamental tax reform. Even the House republican freshmen are going to get into the act by introducing their own tax reform plan. So the way I look at these two tracks, tax cuts are part of the short-term picture, and tax reform is part of the long-term picture from Congress' perspective.

Any and all tax reform advocates in this long-term fight point to complexity as the reason to scrap the code and rip the IRS out by its roots. With the passage of the Taxpayer Relief Act of 1997, you'd have to admit that their argument is a lot better. The code was complicated in very dramatic ways. As an example, early reports on the capital gains provision, as reported in the *Wall Street Journal* about a month ago, named IRS officials that said that Schedule D, the form used by taxpayers to report capital gains, would be expanded from 23 lines and a 13-line worksheet to 56 lines and a 30-line worksheet. But this is fairly premature. At the time nobody knew how the capital gains provisions even worked, especially with respect to the netting issue.

How do you net the capital gains provisions? You set-up several different holding periods with different tax rates applicable to those holding periods. There were no rules specified on how those would be netted. I don't know how the IRS officials knew that there were going to be these lines, but that is addressed and I'll talk about it a little bit later when I discuss the Technical Corrections Bill.

We often talk about complexity in terms of the size of the forms, but there are other issues related to complexity. Many interindustry issues are confusing to investors and to those who advise investors. For example, it's easy to jump immediately to the conclusion that the new capital gains rates could make mutual funds look more inviting than annuities to investors. So we set out an initial analysis competition between the mutual fund market and the annuity market. You're starting to see studies come out now that compare the two. A Price Waterhouse Study just came out that analyzed mutual funds and annuities for the average long-term investor and found that annuities are still a pretty good thing. How this all translates down to the investor is going to be a very confusing issue, at least in the short term.

Not only are there problems between mutual funds and annuities or between different types of investments, but there are problems within the investment categories and industries themselves. For example, in the mutual fund area, the new capital gains rate will have the following effect: Because mutual funds have high turnover in many instances, many of the taxpayers and investors within those mutual funds will put pressure on fund managers to hold their investments longer in order to take advantage of the tax benefits. This has not been the case when there was no differential in these holding periods. This sets up pressure between tax-exempt investors and taxable investors, because pension funds investing in mutual funds don't care about tax rates, they care about return. The fund manager is trying to maximize return, and in order to do that, he or she will believe it's important to turnover his or her assets.

On the other side, the taxable investor is very concerned about this issue. Even within a mutual fund, where you have taxables and tax-exempt, you're going to have complications and confusion. And these issues are going to have to work themselves out one way or the other.

All of these capital gains issues were enacted in the summer of 1997, during the same time that the Congress had a commission to restructure the IRS. The No. 1 finding of the Commission was to simplify the tax code. In the Commission's recently introduced IRS Reform Bill is a provision to address that complexity issue, and you'll hear more and more about it. It is called the "complexity analysis." This provision provides that the IRS will set up standards to measure complexity, and the Joint Committee on Tax (the bicameral tax writing staff that does the revenue estimates on tax proposals) will now have the authority to cite complicating tax provisions. It already has the power to point out line-item veto items. It has power over the technical side of the law and the revenue-estimating process, which is critical to any negotiation over a tax provision. Now Congress is going to give the staff another tool—to be able to point to provisions that are complicated. This will

dramatically affect the negotiating process on provisions that members of Congress want to push in the future, if it is passed.

Much of this complexity will not come to bear on taxpayers until the spring of 1999. Many of the tax cuts were shifted or pushed off until 1998, so the impact of this will not be felt until April 15, 1999, when people start to fill out their tax returns and they have to hire a battery of lawyers and accountants to figure it out. This plays into what a lot of people think will contribute to a groundswell of support for simplifying the Tax Code as part of the year 2000 Presidential campaign, but that's a lot longer out than any one of us could ever predict with great certainty. But, as a snapshot right now, many people view this as the long-term view of the Congress.

I want to move to some of the more short-term items, things that are currently on Congress' plate that will continue into 1998. Congress has been on a two-year cycle, and we're just about at the end of the first-year cycle, so these items will still be alive immediately after January 1, 1998. We have three short-term tax vehicles—the Technical Corrections Bill to the Taxpayer Relief Act of 1997, the IRS Restructuring Bill, and the tax cuts of 1998—that should be coming around the corner early next year.

I want to talk specifically about the items that John mentioned and how they fit into these three short-term vehicles.

First, with respect to education in the Tax Code, education IRAs, the Coverdell Amendment, which I mentioned earlier, is expanding. We will increase the contribution limit to \$2,500. The Ways and Means Committee package would allow corporations to contribute without being subject to the income limits. That was a surprising twist. Also, the most controversial political issue is how it will allow taxpayers to withdraw these amounts for school-age children in kindergarten through grade 12. So you could take these distributions to pay for private education, which sets the Democrats off on a political issue. President Clinton has vowed to veto such a proposal. That's one of the reasons it's important for the Republicans to win in the House, win in the Senate, and make it a campaign issue in 1998, so it will be a bargaining point with the President in the negotiations over a Tax Bill in 1998. As of today, this bill is scheduled to come to the Senate floor. It will be interesting to see how it plays out. I'll be watching to see what kind of momentum this provision has to carry on to tax cuts for 1998.

The next education item is the student loan interest deductions. Next year, taxpayers can take an above-the-line deduction for a limited amount of student loan interest. The deduction would appear to add to the attractiveness of an educational

life insurance program if the deduction were available for interest paid on life insurance policy loans; however, the new COLI rules trump this new deduction. While Congress and the staff probably did not intend this, there's very little inclination to go back at this point to make this change. That issue could be brought to bear on Congress in the next year.

The next item is estate taxes. There is a Technical Corrections Bill that affects the integration and coordination of the increase in the unified credit with a family-owned business exclusion. Under current law, the family-owned business exclusion will be set, along with the unified credit, to equal \$1.3 million in 1998. So a qualified family-owned business owner can pass \$1.3 million to his heirs without imposition of the estate tax. This is phased in, in sort of an odd way. As the unified credit phases up to \$1 million, the family-owned business exclusion is phased down. So, in the year 2008, you will still have a \$1.3 million exclusion for family-owned businesses because they have both the unified credit and the family-owned business exclusion. The unified credit only goes to \$1 million, so the net effect is that you're going to have a unified credit of \$1 million and a family-owned business credit of \$300,000. Next year, that amount is going to be \$625,000 for the unified credit and \$675,000 for the family-owned business exclusion. So as the unified credit phases up, the family-owned business exclusion phases down.

People stated that the impact of the Coordination Rule was a tax increase on family-owned businesses. So if it's a tax cut, why is there a tax increase on the family-owned businesses? As the unified credit goes up, it benefits taxpayers at the lower level, and as the family-owned business exclusion phases down, it comes off the top. So the family-owned business is at a disadvantage as its exclusion comes down because its exclusion comes from the top rates. They have put a fairly complicated formula in the Technical Corrections Bill, but the estate tax is supposed to neither increase nor decrease as the increase in the unified credit and the corresponding decrease in the family-owned exclusion are phased in. I'll refer you to the bill language to figure that one out.

Estate taxes are still very high. More bills will be introduced by the Republican Congress to decrease the impact of the estate tax. Now which way do you go? Do you increase the unified credit or do you reduce the rates? There's a political controversy or a tension because you affect more taxpayers as you increase the unified credit. Most small business owners are more focused on the unified credit because their estate taxes are lower. Many politicians and policy people believe that the real absurdity about the estate tax is the 55% maximum rate. Therefore, many of them want to talk about reducing the rates.

Here is an interesting twist. At the hearings last spring, the Senate Finance Committee Democrats didn't talk about either one of these. They started talking about the fact that, if we're going to get into reforming the estate taxes, maybe we should also look at capital gains at death. This was an open discussion between Senator Daniel Moynihan (D-NY) and Senator John F. Kerry (D-MA), which was a free flow of ideas at the time. When you start to talk about some rather dramatic changes in the estate tax, you always have to put capital gains at death issues on the table because they're going to come up.

The next item is COLI. Is COLI under attack? That's a question I get quite often, and the answer is yes. There are three things I would focus on. First, all deductions and credits are under intense scrutiny to pay for middle-income tax cuts, to balance the budget and to spend more money. Second, when Congress enters into this exercise, it's good for them to be able to find a villain. Congress has been masterful in finding large COLI programs like Wal-Mart's and recently Fannie Mae's in order to "villainize" this issue. Third, when Congress successfully finds a villain, they can look more like they are shutting down a tax abuse and are the defenders of taxpayer dollars. When you have a large program, they can cite billions of dollars of tax benefits, where you only have thousands of dollars of after-tax investment. They have the perfect villain, and they also have a great revenue raiser to pay for some of the other things that they want to do. So this has become a very political issue and there are all sorts of rumors that next year's tax bill will have more COLI changes. Most rumors are that they are going to be tied to limiting the employee exception. There's nothing in writing and no one is saying anything right now, but that's what I'm picking up.

In the current Technical Corrections Bill, the language says that, if the coverage of each individual under a group policy is treated as a separate contract for purposes of the tax definition of life insurance, diversification rules, and the deferred acquisition cost (DAC) rules, then the employee exceptions to the new COLI pro rata disallowance rules still apply. So that was a change that many in the industry wanted on group contracts. There are still many outstanding technical issues. Those on Capitol Hill have said that they need to study these issues further. Either that or they've been unsympathetic as they have been with the student loan interest deduction that I talked about earlier. Those are going to have to play out in next year's technical corrections or tax cut arena.

The next item I want to talk about is the Roth IRA, the new item passed and named after Senator William V. Roth, Jr. (R-DE), the chairman of the Finance Committee. There's a lot of talk about closing the 10% penalty loopholes, and these items have been included in the Technical Corrections Bill that was passed by the Ways and

Means Committee. These items have also been signed off by the Senate Finance Committee Staff and Treasury Committee Staff. The language creates a situation whereby if a taxpayer converts from the current IRA to a Roth IRA, he or she is qualified to spread the income that would be subject to tax over a four-year period and would not be subject to a penalty. But once that amount is in the Roth IRA, the language creates a situation where the taxpayer could immediately take out that amount and put it penalty-free into his or her pocket. That comes from the rule that the penalty tax only applies to a taxable portion of the distribution. Because you're paying tax on the conversion over a four-year period, you're not subject to the penalty if you immediately take it out.

Congress wanted to close this loophole fairly quickly. The Technical Corrections Bill says, if you withdraw converted amounts within five years, then to the extent the converted amounts are includable in income, the withdrawal amount is first subject to the 10% penalty tax, with another 10% tax on income includable over the four-year period. This second part was added because they're not accelerating the income through the four-year rule. You'll just pay the tax as you otherwise would have, even though you have the money. That will be a nice complication for taxpayers.

The other 10% penalty loophole that was addressed in the Technical Corrections Bill is the situation under the current law where 401(k) owners can take hardship distributions for personal residences and education expenses. So, if they convert the distribution to a Roth IRA, it would be tax-free and penalty-free, and they would not be subject to the 20% withholding rules. The taxpayer takes the hardship distribution for a personal residence or educational expense and converts it, without penalties or withholding, to a Roth IRA. He or she can then take it out without being subject to the 20% withholding rule and the 10% rule under an IRA because there are special withdrawal rules under the new rules for education and personal residence.

The net effect is that taxpayers or 401(k) participants could completely avoid the 10% penalty and the 20% withholding tax for first-time home purchases and education. You could probably make the argument that taxpayers shouldn't be subject to a 10% penalty for education or first-time home purchases anyway. Many people would make that argument, but staff in the Technical Corrections Bill did not want to allow something to be done indirectly like this. So the Technical Corrections Bill will shut down this loophole. If you have these types of ideas I would suggest that you proceed at your own peril, because I've given you the warning. It's very likely that these rules will be retroactive, and the downside to doing these types of schemes could be very dangerous.

Regarding the expansion of IRAs, as long as Senator Roth is the chairman of the Finance Committee, there are going to be significant efforts made in this area. We don't know where that's going yet. We don't know whether the income limits will be phased in faster, or come out higher, or whether contribution limits will be raised, but that's all under discussion at this point. But as long as the chief proponent is the chairman of the Finance Committee, expansion of IRAs will be the focus.

Let's discuss capital gains. In the Taxpayer Relief Act of 1997, I mentioned there was a problem with netting because of all of the different holding periods. The Technical Corrections Bill sets the rules out for netting and it provides that, first, all capital transactions be grouped within their own tax group or holding period group and netted against each other. Second, if the group has a net loss, then the loss will be used to net against a gain in the next highest tax group and so on up the chain. Third, carryovers of net capital losses from prior years will be used to offset gains at the highest tax rate level. Fourth, a net loss from capital transactions involving holding periods of one year or less would be used to offset net gains, first, in the highest tax rate, the 28% bracket, then in the 25% bracket, then in the 20% bracket, and finally in the 18% bracket. Those are the rules that have been announced so far on capital gains.

I was talking to some people on the Senate side who had additional questions on capital gains. They felt that there were still some cows out of the barn on capital gains, so I wouldn't be surprised to see the Senate come out with some new rules to clarify the current capital gains regime.

Capital gains, will also be on the screen for additional tax cuts in 1998. One way to eliminate all these technical corrections is to take away a lot of these holding periods that were negotiated in the waning hours of the Taxpayer Relief Act. I would look for proposals to make it simpler by eliminating some of these holding periods in 1998 as part of the Republican plan.

Now I want to talk briefly about technical corrections. People are scrambling madly to be ready for a last-second Technical Corrections Bill. The Ways and Means Committee passed its bill. The fear is that the Senate will look at the bill and say, "These are all the things that we will accept," send it immediately back to the House and pass the it at the last second. There is a small probability of that happening, but it has happened before. In the closing days of Congress, anything can happen and it usually does. What most people, at least on the Senate side, will tell you is that the Technical Corrections Bill will be moved to 1998 along with IRS restructuring, which was passed by the Ways and Means Committee. But the Senate Finance

Committee that held the hearings on taxpayer abuses wants its say on that bill, too, and is looking to put its bill in next year.

The tax cut package for 1998 will be put together by using a number of the major items that I talked about. The real questions with regard to that bill is whether the president will play in this effort and what he will ask for if he does play. The president has learned to play this game of making a political stance or deciding to participate and ask for something bigger than the Republicans have asked for. The jury is still out on what the president will do in response to the 1998 Republican tax cut package. He could make it a political issue for the 1998 campaign if he thinks that the Republicans have gone overboard in asking for relief from the estate tax, capital gains tax, and alternative minimum tax. He can say they've gone too far in helping the wealthy or, if he decides that he wants to play, then he could ask for something like health care or more child care dollars. So we don't know how that will play out, but the ramifications of the Republicans having a tax cut package always has a reaction from the White House, so you can expect that.

I'm going to shift gears out of the taxes into the Financial Services Modernization Bill. This is a bill that is going to need 90 lives in order to survive. In June of 1997, the House Banking Committee reported supported HR10 by only a two-vote majority, which spelled real problems for the Financial Services Modernization Bill. The bill was then referred to the House Commerce Committee. These two committees have concurrent jurisdiction. At the time, the Rules Committee of the House gave the House Commerce Committee a Sept. 15 deadline to report a bill. There was lack of consensus among the members and the banking and insurance industries about what to do in the Commerce Committee, so the Sept. 15 deadline came and went. One Republican leader said this was a personal issue with him and that hearing that kind of thing took him by surprise. In retrospect, I think this comment is certainly playing out here, because the Republican leadership announced early in October that the Commerce Committee would have indefinite jurisdiction. It then urged working groups to put together a bill on this issue and urged the Commerce Subcommittee on Finance and Hazardous Waste Materials to schedule a mark-up for Oct. 23 to report out some legislation, which they did a few days ago by a vote of 23-2.

This legislation does a couple of things. It eliminates the deference given by courts to federal banking regulators over state insurance regulators in preemption challenges. It also, for the first time in federal law, provides an express statement that any person or entity selling insurance must be licensed by the appropriate state insurance regulator. It provides that insurance sales activities of every entity are to be functionally regulated, which is a huge issue. It contains a significant number of

consumer protections, which are federal minimum standards that do not replace state insurance laws.

Now the legislation is going to move to the full Commerce Committee. Banks of every shape and size are opposing the subcommittee language, of course. But most people think that the full committee can hold this bill together and get it through. The real challenge is going to be when meld the Commerce Committee Bill and the Banking Committee Bill in the Rules Committee because the bills will be so different. Under House rules, these bills come under the House Rules into the Rules Committee, which melds them. Only then does it go to the House floor. During all this time, the administration has not known what it wants out of this legislation, and it does not know what it wants to ask for. It has just promoted this as a good idea for the House to address. The Senate has also been fairly silent on this issue. The Financial Services Modernization Bill will not be taken care of by Nov. 14, 1997, I can assure you. There are very important matters that are being shaped as we speak on this bill. The ultimate outcome is very important, whenever and whatever that might be in the future.

Mr. Fenton: Steve, I had one particular question. There's a lot of talk about tax changes. Some are driven, I guess, by the Technical Corrections Bill, but what's driving the call for changes? Is it just politics or is there a real belief that what we have is bad and needs to be fixed? What is the prospect for dramatic change in the Tax Code over the next few years?

Mr. Glaze: An old chairman of the Finance Committee, Russell Long, a politician from Louisiana, always considered the question, "What is political leadership?" And his response to that is, "Political leadership is figuring out where they're going and running like hell to beat them before they get there." I truly believe that these tax issues are driven by the voters. The confusion comes from the political leadership running in different directions in order to get there before the American people. But nobody knows where "there" is. Our society is polled to death. These polls show a major dissatisfaction with the current Tax Code, and I think that's what's driving it.

Mr. Fenton: What's the prospect for dramatic change in the Tax Code?

Mr. Glaze: Now we're talking about a long-term issue. We're having dramatic changes now in terms of what Washington does. Some of the changes we've made, even in the Taxpayer Relief Act, were fairly large. You could make the argument that the \$500 child credit, the education tax credits, and IRA deductions are the largest middle-class tax entitlements to be passed in 16 years. It's going to be hard to get rid of those. It's hard for a politician to say, "I want a flat tax, but, by the way,

I'm going to take away your IRA, education, and mortgage deductions." All of those are already in the code. So it's one thing to talk about scrapping the code, ripping the IRS out by the roots, and sunseting the current code, but the next question is, where are we going? The American people are going to figure out how much they will have to pay under this plan. That's what they care about first, and then they care about simplicity and complexity. We're in an open field and it's hard to know.

I think *Forbes* had a huge impact on the presidential campaign. Where we go tears at the Republican party; it can be one of the most unifying or most divisive things. There must be some issues for the Republicans, and it's going to be a huge challenge for them to be able to come together on this. If they do, they win big because the voters want answers on this. So set your stakes high and you can win big.

From the Floor: Steve, you mentioned that Congress is looking for villains. With their market conduct issues and some of the failures, is there any chance that they're going to look to the life insurance as a place to raise some tax dollars, particularly at the company level?

Mr. Glaze: Finding villains is no new thing for Congress. It's been doing that for years and years. This Congress will find its own villains, so I don't think anybody should take any of that personally. It's part of the deal. My law firm, other firms, and a lot of people in Washington will be policing the situation to make sure that this doesn't happen. You always want to avoid becoming a target, but if you do become one, you need the tools to deal with that. The last big attack was with the DAC rules in 1990. You could call these attacks by COLI a series of miniattacks on the industry that made villains out of a few large corporations. The question is, will there be a broader attack in addition to COLI? Many people believe that one of the ideas behind the COLI skirmish is to go into a broader question of inside buildup on annuities and those type of issues. Many people might be overly sensitive, so I don't want to play that up too much here because we don't hear any current talk about the tax treatment of life insurance. But it's always a concern. It happens and it's going to happen again. It's just a question of preparing for it.

Mr. Philip J.T. Cernanec: In looking at the umbrella of financial services modernization, earlier this year, there was discussion and debate about the Office of the Controller of the Currency (OCC) being a maverick in its approach to liberalizing the powers of banks. With some of the latest discussion, it seems the pendulum is swinging closer to the middle. Can you talk about the thought inside the OCC? What's the thought inside Congress? And where is the administration

relative to this financial service modernization? A point in there refers to your earlier comment about functional regulation of at least the sales practices side.

Mr. Glaze: This brings up the problem with moving legislation at all. You know the OCC's position might be different from that of another agency in the administration, and different from that of the White House or the Subcommittee on Commerce, which could also be different from that of the full Committee on Commerce. They definitely all have different views about the OCC's role. These different interests are taking strong positions out on the edges so that they come back—because they know they're going to have to come back—to the middle. In the beginning, it's only natural to see the OCC trying to grab more and more, and to see the other side taking more extreme positions. But if they're ultimately going to enact legislation, there will be trade-offs on all sides. There are just too many interested parties and too many things going different ways. Most people believe that Congress can only do something after the industry has already merged and market forces have taken effect. Congress comes in at the end, cleans up around the edges, and takes all the credit that it can.

Sometimes I think that's going to happen with the financial services modernization, but the issues that are being discussed today in Congress are issues that OCC, insurance companies, and banks are going to step into on their own. Some of the legislation and the positions taken enable different players in this process to say, "I'm going to take a step a little bit farther out here." What could happen is that all the parties will muscle their way toward what they want it to be and Congress will come in to do the cleanup work.

I mentioned earlier about the Republican leadership taking this personally. This is something that really caused me to think that the Republicans might make some decisions. Some of them at least want to do this, so it would be an interesting dynamic if they did it, especially, in election year. I can tell you many House members are worried about getting in between banks and insurance.