BANKING INDUSTRY

READING

Task 1. You are going to read about changes in the banking industry. Before you read, check your understanding of the words (1–8) below by matching them with their definitions (a–h).

1. Conglomerates
2. Depositors
3. Deregulated
4. Fines
5. Prohibited
6. Regulation
7. Repealed
8. underwriting

a. abolished or ended rules and restrictions

b. sums of money paid as penalties for breaking the law

c. groups of companies that have joined together

d. control of something by rules or laws

e. guaranteeing to buy a company's newly issued stocks if no one else does

f. made it illegal to do something

g. people who place money in bank accounts

h. cancelled or ended (a law)

Task 2. Read the article, and complete it using the words (1–8) from the Vocabulary above

Regulation and deregulation

In the late 1920s, several American commercial banks that were (1)__security issues for companies weren't able to sell the stocks to the public, because there wasn't enough demand. So they used money belonging to their (2)____ to buy these securities. If the stock price later fell, their customers lost a lot of money.

This led the government to step up the (3) ______ of banks, to protect depositors' funds, and to maintain investors' confidence in the banking system. In 1933 the Glass–Steagall Act was passed, which (4)______ American commercial banks from underwriting securities. Only investment banks could issue stocks for corporations. In

Britain too, retail or commercial banks remained separate from investment or merchant banks. A similar law was passed in Japan after World War II.

Half a century later, in the 1980s and 90s, many banks were looking for new markets and higher profits in a period of increasing globalization. So most industrialized countries (5) ______ their financial systems.

The Glass–Steagall Act was (6) ______. A lot of commercial banks merged with or acquired investment banks and insurance companies, which created large financial (7) _______. The larger American and British banks now offer customers a complete range of financial services, as the universal banks in Germany and Switzerland have done for a long time. The law forbidding US commercial banks from operating in more than one state was also abolished. In Britain, many building societies, which specialized in mortgages, started to offer the same services as commercial banks.

Yet in all countries, financial institutions are still quite strictly controlled, either by the central bank or another financial authority. In 2002, ten of Wall Street's biggest banks paid (8) ______ of $1.4 billion for having advised investors, in the 1990s, to buy stocks in companies that they knew had financial difficulties. They had done this in order to get investment banking business from these companies – exactly the kind of practice that led the US government to separate commercial and investment banking in the 1930s.

Task 3. Put the sentences (a–d) below in the right order on the timeline, and write the time period that each sentence refers to. The first one has been done as an example.

a. Major US banks were fined for giving bad advice to investors.

b. Commercial banks used their investors' money to buy securities and many depositors lost money.

c. Many banking regulations were ended and big financial conglomerates were formed.

d. New laws in the US and Britain separated commercial and investment banks.

Task 4. Look at the following statements. Are they true or false, according to the article?

1. The Glass–Steagall Act was the result of the behaviour of investment banks.

2. The British and American financial markets are now completely unregulated.

3. German and Swiss banks did all types of banking business at a time when American and British ones were not allowed to.

4. During the 20th century, many financial markets first became more regulated, and then less regulated.

5. Large American banks no longer do the kind of things that led to the separation of investment and commercial banking in the 1930s.