INVESTMENT COMPANY INSTITUTE

MEMO# 4608

March 18, 1993

RESPONSES TO CHAIRMAN DINGELL CONCERNING BOND INVESTMENTS

March 18, 1993 TO: BOARD OF GOVERNORS NO. 19-93 BANK INVESTMENT MANAGEMENT MEMBERS NO. 2-93 MEMBERS - ONE PER COMPLEX NO. 22-93 RE: RESPONSES TO CHAIRMAN DINGELL CONCERNING BOND INVESTMENTS ____ As we previously informed you, Energy and Commerce Committee Chairman John Dingell had written to the Office of the Comptroller of the Currency, the Securities and Exchange Commission, and the National Association of Securities Dealers, requesting information concerning the sale of bond funds and other bond investments. (See Memorandum to Board of Governors No. 3-93 and to Members - One Per Complex No. 3-93, dated January 13, 1993; Memorandum to Bank Investment Management Members No. 1- 93, dated February 1, 1993.) In response, the OCC, SEC, and NASD recently delivered the attached letters to Chairman Dingell. OCC Letter The OCC generally stated that it shares Chairman Dingell's concerns, but that it "has no reason to believe that the level of supervision of employees of broker-dealers that sell securities on bank premises is less rigorous than the level of supervision applicable to an employee of any other registered broker-dealer." The OCC emphasized that most sales of non-deposit investment products on bank premises are made by employees of SEC-registered broker-dealers. The OCC has advised banks (1) to segregate the sale of investment products from the bank's deposit-taking function and to discourage sales through teller windows and (2) to conspicuously disclose that investment products are neither bank obligations nor FDIC-insured. The OCC intends to issue a more generalized policy statement with respect to investment products sold on bank premises. SEC Letter The SEC emphasized that banks are not subject to registration as broker-dealers and that bank personnel are not subject to self-regulatory organization testing or discipline. Banks and bank personnel are subject to the SEC's basic antifraud rules, which the SEC will enforce to protect investors reinvesting CD proceeds. An attached memorandum from the SEC's Division of Market Regulation discusses, among other things, the prospectus disclosure requirements applicable to mutual funds in which CD proceeds are invested. The SEC memorandum also notes the Institute's development of public information programs relating to bond funds and other mutual funds. NASD Letter The NASD stated that its members must disclose that while higher yields may be realized on a bond fund, the customer's capital is exposed to a risk not present in a CD. The NASD discussed specific steps it has taken to alert members about sales practice issues relating to the reinvestment of CD proceeds. The NASD also has recommended standards for CMO advertising and requires prefiling of all CMO advertisements. The NASD noted that NASD members cannot (1) participate in commission splitting or referral fee arrangements with an unregistered bank employee or (2) allow any person to engage in any sales or solicitation activities on behalf of the member unless the person was appropriately registered with the member.

Chairman Dingell's Press Release Chairman Dingell released these letters with a press release announcing that the Committee will "beef up its oversight of this and related areas and, if necessary, pursue legislation to ensure that sales personnel are fully aware of and in compliance with applicable disclosure requirements." A copy of the press release is also attached. We will keep you informed as these matters develop. Matthew P. Fink President Attachments

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