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FEDERAL RESERVE PERMITS BANK HOLDING COMPANY PERSONNEL TO SERVE ON MUTUAL FUND BOARD

November 4, 1996 TO: BANK INVESTMENT MANAGEMENT MEMBERS No. 27-96 BOARD OF GOVERNORS No. 58-96 SEC RULES COMMITTEE No. 116-96 BANK MUTUAL FUND TASK FORCE RE: FEDERAL RESERVE PERMITS BANK HOLDING COMPANY PERSONNEL TO SERVE ON MUTUAL FUND BOARD

The Institute is pleased to report that the Board of Governors of the Federal Reserve System recently modified its interpretation of Section 32 of the Glass-Steagall Act to permit bank holding company personnel to serve on mutual fund boards. The Board reasoned that this action would give some measure of regulatory relief to bank holding companies and would not frustrate the purposes of Section 32 because its prohibitions still would apply to member banks. (The Board noted its concern, however, that under certain circumstances interlocks between a bank holding company and a mutual fund could raise issues as to whether the holding company controls the fund in a manner that creates an affiliation with the subsidiary bank in violation of Section 20 of the Glass-Steagall Act.) The Board also rescinded Regulation R, reasoning that it was unnecessary because it merely restated Section 32s statutory prohibition on officer, director, and employee interlocks between member banks and firms primarily engaged in underwriting and dealing in securities. The Board also set forth an interpretation stating that Section 32 does not apply to an interlock between a member bank and a firm only engaged in underwriting and dealing activities permissible for national banks. (This interpretation is consistent with prior Board action on applications under Section 20 of the Glass-Steagall Act.) The Boards action, a copy of which is attached, will be effective thirty days after publication in the Federal Register. The Institutes comment letter favored the Board taking each of these initiatives. While the Institute recommended that the Board also permit management interlocks between mutual funds and member banks, the Board stated that permitting these interlocks was not within the scope of the present rulemaking or appropriate without further analysis and rulemaking. Dorothy M. Donohue Assistant Counsel Attachment