

MEMO# 14232

December 14, 2001

FEDERAL RESERVE BOARD LETTER REGARDING FUNDS' INVESTMENTS IN BANKING ORGANIZATIONS

[14232] December 14, 2001 TO: COMPLIANCE ADVISORY COMMITTEE No. 65-01 SEC RULES COMMITTEE No. 97-01 INVESTMENT IN BANK SECURITIES WORKING GROUP RE: FEDERAL RESERVE BOARD LETTER REGARDING FUNDS' INVESTMENTS IN BANKING ORGANIZATIONS

As we previously informed you,¹ the Institute and several members met with staff of the Federal Reserve Board to discuss certain problems that arise for registered investment companies when investing in securities issued by state member banks or bank holding companies, and the control issues that these investments may raise under the Board's interpretation of Regulation Y. The Board staff present at the meeting stated that they are willing to provide relief to fund groups in this area, based on the specific facts and circumstances of each case, and that fund groups should contact them if they are interested in discussing obtaining relief. The Board staff has sent the Institute a letter (a copy of which is attached) reiterating their position and stating that they are willing to consider specific proposals to address these issues, including developing parameters that would clarify for a particular investment company when Board staff would recommend that the Board find the regulatory presumption of control to be rebutted. If you are interested in discussing this issue further with Board staff, we recommend that you contact Scott Alvarez, Federal Reserve Board Associate General Counsel, at (202) 452- 3583. If you have any questions, please contact the undersigned by phone at (202) 371-5408 or by e-mail at aburstein@ici.org. Ari Burstein Associate Counsel Attachment (in .pdf format) 1

Memorandum to Compliance Advisory Committee No. 29-01, SEC Rules Committee No. 53-01 and Investment in Bank Securities Working Group, dated July 9, 2001.