

MEMO# 2102

August 10, 1990

INSTITUTE COMMENTS ON FED PROPOSALS TO ALLOW BANK HOLDING COMPANY SUBSIDIARIES TO BROKER SHARES OF AFFILIATED FUNDS AND TO MODIFY RESTRICTIONS ON CROSS-MARKETING AND DIRECTOR,

August 10, 1990 TO: BOARD OF GOVERNORS NO. 57-90 SEC RULES COMMITTEE NO. 43-90
RE: INSTITUTE COMMENTS ON FED PROPOSALS TO ALLOW BANK HOLDING COMPANY SUBSIDIARIES TO BROKER SHARES OF AFFILIATED FUNDS AND TO MODIFY RESTRICTIONS ON CROSS-MARKETING AND DIRECTOR, OFFICER AND EMPLOYEE INTERLOCKS

The Institute has submitted a comment letter to the Federal Reserve Board on two recent proposals: (1) to revise its interpretive rule under Regulation Y in order to permit a bank holding company, or any nonbank subsidiary, to act as a full-service broker with respect to shares of investment companies advised by the holding company or any of its subsidiaries and (2) to modify its prohibitions on cross-marketing and on director, officer and employee interlocks contained in previous Section 20 orders authorizing securities activities for bank holding company subsidiaries. (See Memorandum to Board of Governors No. 44-90 and SEC Rules Committee No. 35-90, dated June 22, 1990 and Memorandum to Board of Governors No. 48-90 and SEC Rules Committee No. 37-90, dated July 12, 1990.) The Institute's letter opposes the proposed revisions to Regulation Y, noting that the interpretive rule was enacted to prohibit all involvement by a bank holding company in the sale of shares of affiliated investment companies to the public and that the Board has provided no reason for changing its position. The letter states that the potential conflicts of interest and hazards that the rule was meant to address are still present today. The Institute's letter also opposes the proposed modifications to the personnel interlock and cross-marketing restrictions due to the conflicts of interests, financial dangers and other hazards that these activities may pose. Again, the letter notes that the proposal provides no reasoned analysis in support of reversing the Board's long-standing policy. A copy of the Institute's comment letter is attached. We will keep you informed of developments. Craig S. Tyle Associate General Counsel Attachment

abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.