

MEMO# 4746

April 30, 1993

FEDERAL RESERVE ORDER CONCERNING BANK ADMINISTRATION OF MUTUAL FUNDS

April 30, 1993 TO: BOARD OF GOVERNORS NO. 39-93 BANK INVESTMENT MANAGEMENT MEMBERS NO. 8-93 RE: FEDERAL RESERVE ORDER CONCERNING BANK ADMINISTRATION OF MUTUAL FUNDS _____ The Federal Reserve Board recently approved an application from a bank holding company to, among other things, acquire indirectly an investment adviser to certain mutual funds. A copy of the Board's order is attached. The bank holding company sought permission through its affiliates to (1) advise certain mutual funds, (2) administer certain mutual funds, including some funds that it advises (but not any that are marketed primarily to customers of bank affiliates), and (3) allow one of the affiliated administrator's representatives to become a director of the mutual funds that it administers (but not those that it advises). The order reiterated the Board's position that the Glass-Steagall Act prohibits a bank holding company (and any of its affiliates) from acting as mutual fund distributor, but stated that the application raises the question whether the Act permits a bank holding company to act as administrator to mutual funds. The Board concluded that the adviser could serve as administrator because administrative services are primarily ministerial or clerical and the bank holding company would not, by virtue of its administrative services, become involved in policy-making functions of the funds to a greater extent than when it provides solely investment advisory services. The Board noted that "control of the fund would continue to rest with the board of directors of the fund, which would be independent of" the adviser. Moreover, the holding company had committed that it would not have any director or officer interlocks with mutual funds to which the holding company provides both advisory and administrative services. Finally, the administrative services would be provided only to mutual funds in which at least a majority of the board of directors are comprised of disinterested individuals. Craig S. Tyle Vice President - Securities Attachment