

MEMO# 1255

July 13, 1989

INSTITUTE COMMENT LETTER ON APPLICATION OF BANK HOLDING COMPANY TO BROKER SHARES OF AFFILIATED INVESTMENT COMPANIES

July 13, 1989 TO: BOARD OF GOVERNORS NO. 41-89 RE: INSTITUTE COMMENT LETTER ON APPLICATION OF BANK HOLDING COMPANY TO BROKER SHARES OF AFFILIATED INVESTMENT COMPANIES _____

The Institute has submitted a comment letter to the Federal Reserve Board on the application of Banc One Corporation to expand the activities in which its brokerage subsidiary ("Banc One Brokerage") can engage. Banc One's application requested that Banc One Brokerage, which currently provides discount brokerage services, be permitted to recommend and broker shares of mutual funds advised by affiliates and to pay salesmen on a commission or incentive basis. In its comment letter, a copy of which is attached, the Institute submitted that the proposed activities would violate both the Bank Holding Company Act (and Regulation Y thereunder) and the Glass-Steagall Act. Specifically, the Institute noted that Regulation Y expressly prohibits the sale by a bank holding company, directly or indirectly, of securities of an investment company advised by it. In addition, the Institute argued that the sale of shares of an affiliated fund presents the very hazards that the Glass-Steagall Act sought to prohibit and also noted that the application did not contain various "firewall" provisions to prevent activities previously held by the Board to be impermissible. Finally, the comment letter noted that compensation of salesmen on a commission or incentive basis would be contrary to the Board's previous rulings. Craig S. Tyle Assistant General Counsel Attachment