

MEMO# 2016

July 12, 1990

FED REQUESTS COMMENT ON MODIFYING RESTRICTIONS ON CROSS- MARKETING AND DIRECTOR, OFFICER AND EMPLOYEE INTERLOCKS

- 1 - July 12, 1990 TO: BOARD OF GOVERNORS NO. 48-90 SEC RULES COMMITTEE NO. 37-90
RE: FED REQUESTS COMMENT ON MODIFYING RESTRICTIONS ON CROSS-MARKETING AND
DIRECTOR, OFFICER AND EMPLOYEE INTERLOCKS

The Board of Governors of the Federal Reserve System has issued a notice requesting comment on a proposal to modify its prohibitions on cross-marketing and on director, officer and employee interlocks contained in previous orders authorizing securities activities for bank holding company subsidiaries ("Section 20 orders"). A copy of the notice is attached. The Board's Section 20 orders generally have prohibited bank affiliates from engaging in marketing activities on behalf of a Section 20 subsidiary. The Institute consistently has stated that, if bank affiliates are granted mutual fund powers, one necessary firewall would be a prohibition on a bank and any affiliated mutual fund from cross-marketing each other's products and services. In its notice, the Board requests comment on whether cross-marketing should be permitted, provided certain disclosures are made. The notice does not address the specific question of cross-marketing restrictions with respect to sales of affiliated mutual funds. In addition, the notice requests comment on whether the prohibitions on officer, director and employee interlocks between Section 20 subsidiaries and affiliated depository institutions should be replaced by a more flexible standard requiring that the Section 20 subsidiary not be managed or controlled by the depository institution and that there not be substantial identity of personnel between the two entities. The Board is also requesting comment on whether certain specified interlocks should remain prohibited. Finally, the notice seeks comment on whether the current exception to the prohibition on the purchase and sale of assets between a securities company and an affiliated depository institution for U.S. Treasury securities should be extended to - 2 - include U.S. government agency securities. - 1 - Comments on the Board's proposal are due August 8, 1990. We will keep you informed of developments. Craig S. Tyle Associate General Counsel Attachment