

MEMO# 3945

July 22, 1992

FED ADOPTS RULE PERMITTING BANK AFFILIATES TO BROKER AND RECOMMEND MUTUAL FUNDS ADVISED BY AFFILIATES

July 22, 1992 TO: BOARD OF GOVERNORS NO. 46-92 SEC RULES COMMITTEE NO. 48-92
BANK INVESTMENT MANAGEMENT MEMBERS NO. 2-92 RE: FED ADOPTS RULE PERMITTING
BANK AFFILIATES TO BROKER AND RECOMMEND MUTUAL FUNDS ADVISED BY AFFILIATES

The Federal Reserve Board has revised its interpretive rule under Regulation Y governing investment advisory activities of bank holding companies to permit holding companies and nonbank subsidiaries to (1) act as agent for customers in the brokerage of shares of investment companies advised by the holding company or any of its subsidiaries and (2) provide investment advice to customers regarding the purchase and sale of shares of such investment companies. The revised rule requires certain disclosures to be made in connection with such brokerage and/or investment advice. The revisions were proposed by the Board in June 1990. (See Memorandum to Board of Governors No. 44-90 and SEC Rules Committee No. 37-90, dated June 22, 1990). As adopted, the revised interpretation clarifies that bank holding companies and their nonbank affiliates are still prohibited from underwriting and dealing in shares of affiliated mutual funds. In addition, the Board did not take any action to revise certain other restrictions on which comment also was solicited, including restrictions on a bank holding company purchasing shares of an affiliated investment company for its own account or in a fiduciary capacity, and on extending credit to an affiliated investment company. House Energy and Commerce Committee Chairman Dingell and Telecommunications and Finance Subcommittee Chairman Markey had submitted a letter to Federal Reserve Board Chairman Greenspan expressing concern over these issues in connection with the Board's action. Under the revised interpretation, a bank holding company or subsidiary providing brokerage or investment advisory services with respect to affiliated investment companies must advise customers in writing that the investment company's shares are not insured by the FDIC and are not deposits or obligations of, or guaranteed by, any bank (unless that happens to be the case). In addition, the holding company or subsidiary must disclose in writing its role (or the role of its affiliate) as adviser to the investment company. These disclosures can be made orally so long as written disclosure is provided immediately thereafter. The holding company also must instruct its officers and employees to caution customers to read the prospectus of the investment company before investing. The revised interpretation also states that if the brokerage or advisory services are being provided by a bank subsidiary that is not required by its primary regulator to make similar disclosures, the holding company should require the bank to make the disclosures that would be required of

the holding company if it were performing the services. A copy of the Board's release adopting the revised interpretation is attached. Also attached is a copy of Chairmen Dingell and Markey's letter to the Board and the reply of Chairman Greenspan. Craig S. Tyle Vice President - Securities Attachments

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