

MEMO# 1419

September 26, 1989

FED ORDER PERMITS BANK HOLDING COMPANY SUBSIDIARIES TO UNDERWRITE AFFILIATE SECURITIES

September 26, 1989 TO: BOARD OF GOVERNORS NO. 59-89 CLOSED-END FUND
COMMITTEE NO. 39-89 SEC RULES COMMITTEE NO. 55-89 UNIT INVESTMENT TRUST
COMMITTEE NO. 64-89 RE: FED ORDER PERMITS BANK HOLDING COMPANY SUBSIDIARIES
TO UNDERWRITE AFFILIATE SECURITIES

The Federal Reserve Board has announced a modification of its previous orders under Section 20 of the Glass-Steagall Act that would permit bank holding company affiliates to underwrite and deal in certain securities issued by affiliates, or representing interests in, or secured by, obligations of affiliates. The modification will permit underwriting and dealing in such securities that are (1) rated by a non-affiliated nationally recognized rating agency or (2) issued or guaranteed by FNMA, FHLMC or GNMA, or represent interests in such obligations. The Institute had filed a comment letter opposing the modification. (See Memorandum to Board of Governors No. 42-89, Closed-End Fund Committee No. 28-89, SEC Rules Committee No. 42-89 and Unit Investment Trust Committee No. 37-89, dated July 24, 1989). In the notice approving the modifications, the Board rejected the arguments of the Institute and of the Securities Industry Association that the modification could lead to conflicts of interest and increased risk. The Board also stated that its order was consistent with the recent decision of the Second Circuit in *SIA v. Clarke*, which upheld a determination of the Comptroller of the Currency that allowed a national bank to underwrite mortgage-backed securities. The Board's order also increased from five percent to ten percent the limit on the amount of total revenues a Section 20 affiliate may derive from the underwriting and dealing of bank-ineligible securities. A copy of the Board's notice is attached. We will keep you advised of further developments in this area. Craig S. Tyle Assistant General Counsel Attachment