

MEMO# 4824

May 25, 1993

FEDERAL RESERVE'S RESPONSE TO CHAIRMAN DINGELL CONCERNING BANK SPONSORSHIP OF MUTUAL FUNDS

May 25, 1993 TO: BOARD OF GOVERNORS NO. 50-93 BANK INVESTMENT MANAGEMENT
MEMBERS NO. 12-93 RE: FEDERAL RESERVE'S RESPONSE TO CHAIRMAN DINGELL
CONCERNING BANK SPONSORSHIP OF MUTUAL FUNDS

_____ As we previously informed you, House Energy and Commerce Committee Chairman John Dingell recently requested clarification of the Federal Reserve Board's current position on whether the Glass-Steagall Act permits bank holding companies to sponsor and underwrite mutual funds. (See Memorandum to Board of Governors No. 44-93 and Bank Investment Management Members No. 9-93, dated May 12, 1993.) The Federal Reserve Board recently submitted the attached response to Chairman Dingell. Chairman Dingell's letter was prompted by a recent Board order that permitted a bank holding company to provide administrative services to mutual funds. In its letter, the Board stated that the application did not raise the issue of whether a bank holding company may act as the distributor for a mutual fund. The Board's order thus was limited to a general determination that administrative services are closely related to banking for purposes of the Bank Holding Company Act and permissible under the Glass-Steagall Act. The Board stated that: [a] proposal to act as a distributor of a mutual fund involves a different relationship with the mutual fund which would require a separate consideration of the question of control. In the [order], the Board was not requested to, and did not, reverse or change the restriction in its interpretive rule that bank holding companies may not act as the distributor for mutual funds that are advised by the holding company [and did not] reverse or change the restriction in its section 20 orders prohibiting section 20 affiliates from underwriting the shares of mutual funds. Matthew P. Fink President Attachment