

MEMO# 1250

July 6, 1989

INSTITUTE COMMENT LETTER TO FEDERAL RESERVE BOARD ON BANC ONE MUTUAL FUND APPLICATION

July 6, 1989 TO: BOARD OF GOVERNORS NO. 40-89 SEC RULES COMMITTEE NO. 34-89 UNIT INVESTMENT TRUST COMMITTEE NO. 31-89 RE: INSTITUTE COMMENT LETTER TO FEDERAL RESERVE BOARD ON BANC ONE MUTUAL FUND APPLICATION

_____ The Institute has filed the attached comment letter to the Federal Reserve Board in connection with an application by Banc One to engage in certain mutual fund and unit investment trust activities through its brokerage subsidiary. According to the application submitted to the Board by Banc One, its wholly-owned brokerage subsidiary is currently engaging in discount brokerage activities which include brokering the shares of mutual funds and UITs which are neither affiliated with nor advised or sponsored by the brokerage firm or an affiliate. The application seeks to expand the brokerage firm's discount brokerage activities to include recommending to customers the shares of mutual funds advised by an affiliate and paying salesmen that provide brokerage services on a commission or incentive basis. The Institute's letter contradicts the assertion in the application that all of the proposed activities of the brokerage affiliate are permissible for bank holding companies. The letter notes that Regulation Y prohibits Banc One's proposal to permit its brokerage affiliate to recommend and sell to customers shares of a mutual fund advised by an affiliate of Banc One. In addition, the proposal to compensate employees of the brokerage affiliate who sell mutual fund and UIT shares through commissions or incentive-based methods violates the Bank Holding Company Act and the Glass-Steagall Act. Finally, the letter notes that the Banc One proposed investment company activities violate the legislative purpose underlying the Glass-Steagall Act. For the reasons cited in the letter, the Institute urges the Board to deny that portion of the application relating to proposed mutual fund and UIT activities. We will keep you informed of developments. Catherine L. Heron Deputy General Counsel
Attachment