

MEMO# 8106

August 2, 1996

INSTITUTE COMMENT LETTER TO FEDERAL RESERVE ON PERMITTING BANK PERSONNEL TO SERVE ON FUND BOARDS

August 2, 1996 TO: BANK INVESTMENT MANAGEMENT MEMBERS No. 20-96 BOARD OF GOVERNORS No. 46-96 SEC RULES COMMITTEE No. 85-96 BANK MUTUAL FUND TASK FORCE RE: INSTITUTE COMMENT LETTER TO FEDERAL RESERVE ON PERMITTING BANK PERSONNEL TO SERVE ON FUND BOARDS

As you may know, the Board of Governors of the Federal Reserve System has proposed to permit some bank holding company personnel to serve on mutual fund boards. The Institute recently submitted the attached comment letter on the Boards proposal. Section 32 of the Glass-Steagall Act prohibits Federal Reserve member banks from sharing officers, directors or employees with mutual funds. The Board has interpreted Section 32 also to prohibit bank holding companies from sharing officers, directors or employees with mutual funds. The Board proposes to permit officers, directors, and employees of bank holding companies to serve on a mutual fund board, with an important exception. If the bank holding company's bank advises a fund, then the holding company's personnel could not serve on that fund's board. In addition, bank personnel would continue to be prohibited from serving on a mutual fund board. The Institute's letter recommends that the Board go further than its proposal and permit any management interlock between a mutual fund and a bank or bank holding company. Under the Institute's recommendation, officers, directors and employees of any bank or bank holding company could serve on a fund's board, whether or not the bank or holding company advises or administers the fund. We will keep you informed of further developments in this area. Matthew P. Fink President Attachment Note: Not all recipients of this memo will receive an attachment. If you wish to obtain a copy of the attachment referred to in this memo, please call the Institute's Information Resource Center at (202)326-8304, and ask for this memo's attachment number: 8106.