

MEMO# 1515

November 3, 1989

FED APPROVES APPLICATION OF BANK HOLDING COMPANY TO ENGAGE IN PRIVATE PLACEMENTS; EXCLUDES SHARES OF AFFILIATED INVESTMENT COMPANIES

- 1 - November 3, 1989 TO: BOARD OF GOVERNORS NO. 68-89 SEC RULES COMMITTEE NO. 66-89 CLOSED-END FUND COMMITTEE NO. 48-89 UNIT INVESTMENT TRUST COMMITTEE NO. 74-89 RE: FED APPROVES APPLICATION OF BANK HOLDING COMPANY TO ENGAGE IN PRIVATE PLACEMENTS, BUT EXCLUDES SHARES OF AFFILIATED INVESTMENT COMPANIES

The Federal Reserve Board has issued an order approving the application of Bankers Trust New York Corporation to engage, through its securities subsidiary, in private placements of all types of securities and to buy and sell all types of securities as "riskless principal". However, as urged by the Institute, the order would not allow private placements of securities issued by investment companies advised by Bankers Trust or a subsidiary. Previously, the Federal Reserve Board has issued orders allowing bank holding companies to engage, to a limited extent, in underwriting and dealing of debt securities and, one year thereafter, equity securities. Recently, the Board extended those orders to allow underwriting and dealing in certain affiliate securities. (See Memorandum to Board of Governors No. 59-89, Closed-End Fund Committee No. 39-89, SEC Rules Committee No. 55-89 and Unit Investment Trust Committee No. 64-89, dated September 26, 1989.) However, the Board has not allowed underwriting and dealing of securities issued by affiliated investment companies. The Institute has continued to monitor bank holding company applications in order to determine if they raise this issue and, if so, to submit comment letters. The Institute's comment letters on such applications have consistently stated that any approval by the Board of such investment company activities would be in violation of the Glass-Steagall Act, the Bank Holding Company Act and Federal Reserve Board Regulation Y. For example, this summer the Institute commented on an application by a bank holding company to broker shares of an affiliated investment company. The bank holding company subsequently modified its application to withdraw that request. (See Memorandum to Board of Governors No. 45-89, SEC Rules Committee No. 46-89 and Unit - 2 - Investment Trust Committee No. 46-89, dated August 2, 1989). Accordingly, the Institute filed a comment letter on the Bankers Trust application. In its order, the Board states that Bankers Trust did not "specifically" request authority to place securities of affiliated investment companies and notes that it would be prohibited from doing so under Regulation Y. Copies of the Institute's comment letter and the Board's order are attached. Craig S. Tyle Associate General Counsel

Attachment

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