MEMO# 4921

June 25, 1993

FEDERAL RESERVE LETTER ON MUTUAL FUND SALES ACTIVITIES

June 25, 1993 TO: BANK INVESTMENT MANAGEMENT MEMBERS NO. 13-93 BOARD OF GOVERNORS NO. 57-93 RE: FEDERAL RESERVE LETTER ON MUTUAL FUND SALES ACTIVITIES ____ The Federal Reserve Board recently issued a letter to its banking supervisors concerning the separation of mutual fund sales activities from insured deposit-taking activities. A copy of the Board's letter is attached. The letter provides guidance for examiners to follow until the Board has conducted a general review and issued a more extensive policy statement. The letter states that mutual funds should be sold in a location separate from the area where banks conduct business involving insured bank deposits, that bank tellers should not offer investment advice, and that bank employees should direct customers seeking investment advice to others designated and trained as advisers. Disclosure that bank-sold mutual funds are not federally insured and are not bank obligations should be displayed prominently in all mutual fund advertising, promotional and sales material, sales confirmations, and periodic account statements issued by the bank. When an account for the purchase of mutual fund shares is established, customers should receive similar disclosure along with disclosure that the investment's value may fluctuate and, at the time of sale, may be higher or lower than the amount that the customer had originally paid. Banks are encouraged to obtain customer statements indicating that the customer has been informed and understands these disclosures. When a bank sells shares of a mutual fund advised by the bank or an affiliate, the bank also must disclose this advisory role at the time the customer's account is opened. In their regular bank examinations, examiners will evaluate whether the bank's disclosures above are effective. They also will examine whether the bank has prohibited retail deposit-taking employees from offering investment advice, whether the mutual funds sales area is separate and distinct from the retail deposit area, and whether the bank has a policy to ensure that a third party selling mutual funds on the bank's premises is issuing comparable disclosures and following comparable procedures. The Board's letter enclosed a sample guidance letter that bank supervisors could send to state member banks. Thomas M. Selman Assistant Counsel Attachment