

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 82-53
May 5, 1982

REGULATION Y

Bank Holding Companies and Change in Bank Control Act

Request for Public Comment Relating to Nonbanking Activities

TO ALL MEMBER BANKS,
BANK HOLDING COMPANIES
AND OTHERS CONCERNED IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

The Board of Governors of the Federal Reserve System is requesting public comment on the permissibility of certain securities brokerage and related activities proposed in an application filed by BankAmerica Corporation to acquire The Charles Schwab Corporation. The Board has not previously determined that these activities are generally permissible for bank holding companies and is not proposing to make such a determination at this time.

Specifically, the activities included in the proposed acquisition are to:

1. Engage in certain securities brokerage activities;
2. Make margin loans to customers; and
3. Perform services related to these activities including paying interest on net free balances of their customers, providing securities custodial services, investing net free balances of customers in an unaffiliated money market fund and offering customer-directed Individual Retirement Accounts (IRAs) under an arrangement with an unaffiliated savings and loan association.

The Board asked specifically for comment regarding whether engaging in securities brokerage activities proposed in the application would violate Federal law separating banking and commerce, whether this activity and making margin loans to customers are closely related to banking under the terms of the Bank Holding Company Act, and whether the services proposed are permissible under the Bank Holding Company Act as being incidental to the proposed securities brokerage.

Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank: 1-800-442-7140 (intrastate) and 1-800-527-9200 (interstate). For calls placed locally, please use 651 plus the extension referred to above.

Printed on the following pages is a copy of the Board's notice of the application as published in the Federal Register. Any views or comments concerning the subject of nonbanking activities should be submitted in writing and received by Mr. William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551 no later than May 29, 1982.

Questions in regard to the contents of this circular should be directed to Robert D. Hankins of our Holding Company Supervision Department, Ext. 6120.

Additional copies of this circular will be furnished upon request to the Department of Communications, Financial and Community Affairs of this Bank, Ext. 6289.

Sincerely yours,

A handwritten signature in cursive script that reads "William H. Wallace".

William H. Wallace
First Vice President

BankAmerica Corp.; Proposal To Engage in Securities Brokerage and Extend Margin Credit

BankAmerica Corporation, San Francisco, California, has applied, pursuant to section 4(c)(8) of the Bank Holding Company Act of 1956, as amended (12 U.S.C. 1843(c)(8)) and § 225.4 (a) and (b)(1) of the Board's Regulation Y (12 CFR 225.4 (a), (b)(1)), for permission to directly acquire voting shares of The Charles Schwab Corporation, San Francisco, California and, thereby indirectly acquire Charles Schwab & Company, Inc., San Francisco, California (together "Schwab"). Applicant would engage in securities brokerage consisting principally of buying and selling securities—principally corporate debt and equity securities and options—solely upon the order and for the account of customers. Its business would be retail-oriented and would be characterized as "discount brokerage." Applicant would not engage in dealing, market making or underwriting. It would give no investment advice, would not recommend the purchase or sale of specific securities and would not offer to buy or sell specific securities. Also, Applicant would engage in the business of extending margin in conformity with the Board's Regulation T, 12 CFR 220. By this activity, Applicant's brokerage customers would furnish a specified portion of the purchase price of securities and Applicant would furnish the balance and charge interest on that amount until the purchaser either sells the securities or otherwise takes them up. Finally, Applicant would offer certain specified services to its securities customers. First, Applicant would pay interest on net free balances in the account of its securities customers. Net free balances are funds in the account of a customer of a broker/dealer and arise in instances

where interest or dividends have been credited to the customer's account or where stock has been sold on behalf of a customer and the proceeds are placed in the customer's account pending further disposition of the funds. Payment of interest on such balances by Applicant would be subject to the rules and regulations of the Securities Exchange Commission. Second, applicant would provide brokerage customers security custodial services, including safe keeping and accounting for securities. Third, Applicant would maintain an arrangement with Cash Equivalent Fund, Inc., a money market fund sponsored by Kemper Financial Services, Inc., that would permit brokerage customers to invest temporarily free balances in the fund. Applicant would receive no remuneration from its customers, but would receive a service fee from the fund for its role as agent in arranging the purchase of the fund shares for the brokerage customers' account. Last, Applicant would offer its brokerage customers access to a self-directed IRA accounts under an arrangement with First Nationwide Savings, an unaffiliated savings and loan association, as trustee. Pursuant to this arrangement Applicant's brokerage customers would personally manage investments in their own Individual Retirement Account, consisting of stocks, bonds, government securities and covered options. Applicant states that these proposed services are incidental to the proposed brokerage services.

These activities would be conducted from offices located in: Albuquerque, New Mexico; Atlanta, Georgia; Austin, Texas; Baltimore, Maryland; Boston, Massachusetts; Century City, California; Chicago, Illinois; Cincinnati, Ohio; Cleveland, Ohio; Dallas, Texas; Denver, Colorado; Detroit, Michigan; Fort Lauderdale, Florida; Fort Worth, Texas; Honolulu, Hawaii; Houston, Texas; Indianapolis, Indiana; Irvine, California; Kansas City, Missouri; Los Angeles, California; Memphis, Tennessee; Midland, Texas; Millburn, New Jersey; Minneapolis, Minnesota; Nashville, Tennessee; Newport Beach, California; New Orleans, Louisiana; New York, New York; Oklahoma City, Oklahoma; Philadelphia, Pennsylvania; Phoenix, Arizona; Pittsburgh, Pennsylvania; Portland, Oregon; Sacramento, California; St. Louis, Missouri; St. Petersburg, Florida; Salt Lake City, Utah; San Antonio, Texas; San Diego, California; San Francisco, California; Santa Barbara, California; Seattle, Washington; Sun City, Arizona;

Sunnyvale, California; Tulsa, Oklahoma; Virginia Beach, Virginia; and Washington, D.C. The geographic area to be served by each of these offices would be all fifty (50) States and the District of Columbia.

Section 4(c)(8) of the Bank Holding Company Act provides that a bank holding company may, with Board approval, engage in any activity "which the Board after due notice and opportunity for hearing has determined (by order or regulation) to be so closely related to banking or managing or controlling banks as to be a proper incident thereto." 12 U.S.C. 1843(c)(8). The proposed activities have not been specified by the Board in § 225.4(a) of Regulation Y as permissible for bank holding companies. Applicant believes, however, that the proposed activities are closely related to banking and a proper incident thereto, and this opinion in part is based upon the following facts. As to the proposed brokerage services, banks in fact have traditionally performed brokerage services by purchasing and selling securities for the account of customers and this practice is authorized by statute. See 12 U.S.C. section 377. Also, by order dated July 28, 1981, the Board approved the application by a bank holding company to act as a securities broker under certain circumstances. See *JCT Trust Company, Ltd.*, 67 Federal Reserve Bulletin 635 (1981). As to the proposed activity of extending margin credit pursuant to Regulation T, Applicant states that banks have historically performed a similar function in extending margin credit pursuant to Regulation U, 12 CFR 221 and, further, such activity is similar to commercial lending activities normally performed by banks.

Interested persons may express their views on whether the proposed activities of securities brokerage and margin lending are "so closely related to banking or managing or controlling banks as to be a proper incident thereto." In addition, interested persons also may express their views on certain issues related to the application—particularly, whether the proposed activities are permissible under federal statutes (i.e. the Glass-Steagall Act, 12 U.S.C. 24, 78, 377 and 378(a)) designed to separate commercial from investment banking and whether the incidental services described above are necessary to the conduct of the proposed brokerage activities or are otherwise "closely related" to banking within the meaning of section 4(c)(8) of the Bank Holding Company Act. Finally, interested persons may also express their views on the question whether

consummation of the proposal can "reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices." Any request for a hearing on these questions must be accompanied by a statement of the reasons why a written presentation would not suffice in lieu of a hearing, identifying specifically any questions of fact that are in dispute, summarizing the evidence that would be presented at a hearing, and indicating how the party commenting would be aggrieved by approval of the proposal.

The application may be inspected at the offices of the Board of Governors or at the Federal Reserve Bank of San Francisco.

Any views or requests for hearing should be submitted in writing and received by the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, not later than May 29, 1982.

Board of Governors of the Federal Reserve System, April 12, 1982.

James McAfee,
Associate Secretary of the Board.

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