

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 82-105
August 26, 1982

REGULATION Y

BANK HOLDING COMPANIES AND CHANGE IN BANK CONTROL

(Order For Hearing)

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 has ordered a hearing on the application filed by BankAmerica Corporation to acquire The Charles Schwab Corporation and thereby engage in certain discount stockbroking and related service activities. A request for public comment was published in the Federal Register and issued by our Circular No. 82-53, dated May 5, 1982.

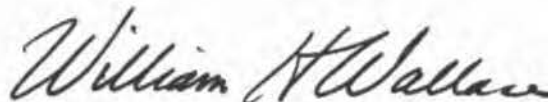
Subsequently, the Securities Industry Association opposed the application and requested a public hearing to explore the questions on which the Board requested comment.

The Board's order announcing the hearing is printed on the following pages. The hearing is scheduled to be commenced September 8, 1982. Please note that this date differs from the original date, September 13, 1982, announced in the Federal Register notice.

Questions regarding the contents of this circular should be directed to David W. Dixon, Regulations Attorney of the Holding Company Supervision Department, Extension 6182.

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

Sincerely yours,



William H. Wallace
First Vice President

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.

Regulation T, 12 CFR 220, and the offering of certain specified services for its securities customers. This group of nonbanking activities has not yet been determined by the Board to be "closely related" to banking within the meaning of section 4(c)(8) of the Act and has not been added to the list of permissible activities in section 225.4(a) of the Board's Regulation Y, 12 CFR 225.4(a).

By notice published in the Federal Register on April 14, 1982, the Board invited interested persons to express their views on whether: (1) The proposed activities are so closely related to banking or managing or controlling banks as to be a proper incident thereto; (2) the proposed activities are permissible under the Glass-Steagall Act (i.e., 12 U.S.C. 24, 78, 377 and 378(a)), which is designed to separate commercial from investment banking, and, (3) 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 interest, or unsound banking practices. Parties requesting a hearing were directed to state why a written presentation would not suffice in lieu of a hearing, to identify specifically any disputed question of fact and to summarize the evidence that would be presented at a hearing.

By memorandum dated May 28, 1982, the Securities Industry Association ("SIA") opposed the application. SIA contends that the proposed (or substantially similar) activities have never been conducted by banks or bank holding companies to the extent proposed by Applicant and therefore may not be considered "closely related" to banking within the meaning of section 4(c)(8) of the Act. Additionally, SIA claims that the proposed activities are precluded by sections 16 and 20 of the GSA, since banks are prohibited from conducting such activities by those provisions of the GSA. Finally, SIA disputes the public benefits alleged by Applicant to accompany its proposal and claims several possible adverse effects (e.g., anticompetitive effects in the product lines of discount brokerage, conflicts of interest, possible failure of Applicant to provide its trust and other customers the best brokerage services at the lowest cost, voluntary tying, unfair competition due to Schwab's affiliation with a bank and its alleged low cost of funds, public confusion and preemption of legislative process).

In connection with these contentions, SIA has requested that the Board hold a

public hearing to explore the questions posed by the Board in its Federal Register notice, to investigate the factual premises of Applicant's proposal and to examine the possible adverse effects claimed by SIA. SIA also states that the record should contain information on the scope of Schwab's proposed operations, including: (1) The extent to which Schwab will take principal positions; (2) whether Schwab employees will receive bonuses; (3) Applicant's plans to promote and market Schwab's services; (4) resemblances between the proposed activities (including the Charles Schwab One Account) and deposit banking; (5) the alleged adverse anticompetitive effects associated with the proposal; and (6) Applicant's plans to minimize the possibility of voluntary tying. By letter dated June 21, 1982, Applicant opposed SIA's request for a hearing and stated that no disputed material facts have been raised in connection with its proposal.

While the Board believes that questions raised in the submissions of the parties and public comments might appropriately be resolved through additional written submission or an informal presentation, a procedure that has been utilized and found effective in other cases, the Board has decided to order a formal hearing conducted under the procedures and time schedule outlined in this Order as agreed to by the Applicant and SIA. The hearing will provide an appropriate and expeditious method to develop a full record for Board consideration of any disputed material fact involved in this proposal.

Accordingly, *it is hereby ordered* that a public and formal administrative hearing be held to resolve any disputed issues of material fact raised by SIA in its protest. In this connection, the hearing should address the scope of Applicant's proposed operation of Schwab and the alleged adverse competitive effects raised by SIA in its protest.

The hearing shall be conducted, except as modified below, in accordance with Subpart A of the Board's Rules of Practice for Hearings, 12 CFR Part 263, and will commence at 10:00 a.m., September 13, 1982, at the offices of the Board in Washington, D.C., before an administrative law judge. In the interest of concluding such hearing as expeditiously as possible, the hearing shall be conducted in accordance with the following schedule, which has been agreed to by both Applicant and SIA and which shall not be departed from in any material respect without the Board's prior consent:

FEDERAL RESERVE SYSTEM

BankAmerica Corp.; Order for Hearing

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)(2) of the Board's Regulation Y (12 CFR § 225.4(a) and (b)(2)), for permission to acquire directly all of the 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 solely upon the order and for the account of customers, margin lending in conformity with the Board's

July 19, 1982—Production of Information
response to the requests of the parties

August 18, 1982—Submission of Direct
Testimony

September 13–17, 1982—Hearing

October 1, 1982—Submission of Briefs
and Proposed Findings of Fact

October 12, 1982—Submission of Reply
Briefs

November 12, 1982—Filing of
Recommended Decision

November 24, 1982—Filing of Exceptions

Additionally, the parties have agreed to submit requests for the production of documents and other information from the opposing party to the Board for a determination as to the general relevance and as to the reasonable scope of specific requests and to abide by the ruling of the Board's General Counsel on these matters as well as on any objections to the production of specific information by a party.

By order of the Board of Governors,
effective July 6, 1982.

William W. Wiles,

Secretary of the Board.

[FR Doc. 82-18899 Filed 7-9-82; 8:45 am]

BILLING CODE 6210-01-M