



FEDERAL RESERVE BANK
OF DALLAS

WILLIAM H. WALLACE
FIRST VICE PRESIDENT
AND CHIEF OPERATING OFFICER

July 20, 1990

DALLAS, TEXAS 75222

Circular 90-50

TO: The Chief Executive Officer of each member bank and others concerned in the Eleventh Federal Reserve District

SUBJECT

Comments on Proposed Modification of Interpretive Rule Regarding Investment Advisory Activities of Bank Holding Companies

DETAILS

The Federal Reserve Board has requested public comment on proposed revisions to its interpretive rule regarding investment advisory activities, found at 12 CFR 225.125(h). The proposed rule would state that a bank holding company and its nonbank subsidiaries may broker shares solely as agent for the account of customers of both open-end and closed-end investment companies that are advised by the bank holding company or any of its bank or nonbank subsidiaries. A copy of the Board's notice was published in the Federal Register, Vol. 55, No. 122, p. 25849, Monday, June 25, 1990. Comment is requested by August 9, 1990.

The Board proposes that language be added to clarify that the reference to "sale or distribution" of shares of investment companies in paragraph (h) of the rule does not prohibit a bank holding company or its nonbank subsidiaries from giving investment advice and/or acting solely as agent for the account of customers in the purchase or sale of shares of investment companies advised by the bank holding company or its subsidiaries. Under the proposal, a holding company that conducts this combination of activities would be required to disclose its dual roles to customers. The proposal would also require officers and employees of the holding company to caution customers to read the prospectus of an investment company before investing in it and to advise customers in writing that the investment company's shares are not obligations of any bank, are not insured by the Federal Deposit Insurance Corporation, and are not endorsed or guaranteed in any way by any bank. The Board also seeks public comment on whether it is appropriate to amend any of the restrictions in paragraph (g) of the interpretive rules regarding the purchase of shares of investment companies advised by the bank holding company, extensions of credit by the bank holding company to such an investment company, and certain other transactions.

All comments, which should reference Docket No. R-0698, should be mailed to William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, or should be delivered to Room B-22, 20th Street and Constitution Avenue, N.W., Washington, D.C., between 8:45 a.m. and 5:15 p.m. weekdays.

MORE INFORMATION

For more information, please contact Scott G. Alvarez, Assistant General Counsel (202) 452-3583, or Brendan T. Gormley, Staff Attorney (202) 452-3721, Legal Division; or Robert S. Plotkin, Assistant Director, Division of Banking Supervision and Regulation (202) 452-2782. The hearing impaired may use the Telecommunications Device for the Deaf (TDD) to contact Earnestine Hill or Dorothea Thompson (202) 452-3544. For additional copies of this circular, please contact the Public Affairs Department at (214) 651-6289.

Sincerely yours,

William W. Wiles