



FEDERAL RESERVE BANK  
OF DALLAS

ROBERT D. McTEER, JR.  
PRESIDENT  
AND CHIEF EXECUTIVE OFFICER

DALLAS, TEXAS  
75265-5906

February 6, 1995

**Notice 95-18**

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

**SUBJECT**

**Order Interpreting the  
Cross-marketing Provisions of Regulation Y  
(Bank Holding Companies and Change in Bank Control)**

**DETAILS**

The Board of Governors of the Federal Reserve System has clarified that a bank or thrift or their subsidiaries may act as riskless principal or broker for customers in buying and selling bank-eligible securities that an affiliated section 20 subsidiary underwrites or deals in, subject to certain conditions.

**ATTACHMENT**

A copy of the Board's order relating to this action is attached.

**MORE INFORMATION**

For more information, please contact Michael Johnson at (214) 922-6081. For additional copies of this Bank's notice, please contact the Public Affairs Department at (214) 922-5254.

Sincerely yours,

*Robert D. McTeer, Jr.*

## FEDERAL RESERVE SYSTEM

### Order Interpreting the Cross-Marketing Limitation Applicable to Section 20 Subsidiaries

In October 1993, the Board approved an application by BankAmerica Corporation to conduct certain securities-related activities through its section 20 subsidiary.<sup>1/</sup> In its Order, the Board interpreted the cross-marketing limitation, which prohibits bank and thrift affiliates of a section 20 company from acting as an agent for, or engaging in marketing activities on behalf of, the section 20 company. The Board stated that BankAmerica's subsidiary banks may, consistent with the cross-marketing limitation, act as a riskless principal or broker for customers in buying and selling bank-eligible securities that the section 20 company underwrites or deals in.<sup>2/</sup>

In setting out this interpretation, the Board relied on several commitments by BankAmerica. BankAmerica committed that: (1) its section 20 subsidiary would remain separately incorporated, capitalized, and funded, and operationally distinct from BankAmerica's subsidiary banks; (2) there would be no employees in common between its section 20 subsidiary and any of BankAmerica's subsidiary banks or their subsidiaries; (3) sales by its section 20 subsidiary of bank-eligible securities through BankAmerica's subsidiary banks

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<sup>1/</sup> BankAmerica Corporation, 79 Federal Reserve Bulletin 1163 (1993) ("BankAmerica").

<sup>2/</sup> The term "bank-eligible securities" refers to securities that a state member bank may underwrite or deal in under sections 5(c) and 16 of the Glass-Steagall Act (12 U.S.C. §§ 335 and 24(7)).

and their subsidiaries would not involve any exclusive arrangements;<sup>3/</sup> and (4) the section 20 subsidiary's role in underwriting or dealing in the bank-eligible securities brokered by BankAmerica's subsidiary banks would be fully disclosed to the banks' brokerage customers and would be conducted on an arm's length basis. In addition, the banks must continue to operate in accordance with the guidelines established by the Board and the other agencies for the sale of uninsured products on bank premises.<sup>4/</sup>

In order to relieve other bank holding companies from the burden of having to apply individually to engage in the cross-marketing activity approved in BankAmerica, the Board hereby clarifies that, under the circumstances relied on in BankAmerica, a bank or thrift or their subsidiaries may act as a riskless principal or broker for customers in buying and selling bank-eligible securities that an affiliated section 20 subsidiary underwrites or

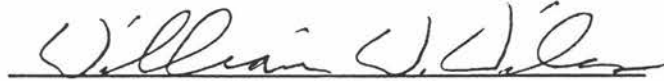
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<sup>3/</sup> In other words, the section 20 subsidiary also would sell its bank-eligible securities both directly and through other broker-dealers, and the section 20 subsidiary's bank affiliates would sell bank-eligible securities underwritten or dealt in by other broker-dealers.

<sup>4/</sup> See Interagency Statement on Retail Sales of Nondeposit Investment Products, February 15, 1994. Pursuant to this statement, among other things, banks engaging in retail sales of nondeposit investment products should ensure that customers are fully informed that these products: (1) are not FDIC-insured, (2) are not deposits or other obligations of the bank and are not guaranteed by the bank, and (3) involve investment risks, including possible loss of principal.

deals in, subject to the above conditions and receipt of any other necessary regulatory approvals.

By order of the Board of Governors,<sup>5/</sup> effective December 14, 1994.



William W. Wiles  
Secretary of the Board

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<sup>5/</sup> Voting for this action: Chairman Greenspan, Vice Chairman Blinder, and Governors Kelley, LaWare, Phillips, and Yellen. Absent and not voting: Governor Lindsey.