

FEDERAL RESERVE BANK
OF NEW YORK

Circular No. 6788
August 20, 1971

PROPOSED AMENDMENT TO REGULATION Y

To Permit Bank Holding Companies to Serve as Investment Advisers to Mutual Funds

*To All Banks, and Others Concerned,
in the Second Federal Reserve District:*

Following is the text of a statement issued August 17 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System proposed today to permit bank holding companies to serve as investment advisers to mutual funds. This proposal is part of a series of proposals the Board has made concerning activities regarded as closely related to banking under the 1970 amendments to the Bank Holding Company Act. Comments on the proposal should be submitted to the Board by September 24.

Under section 4(c)(8) of the Bank Holding Company Act, the Board may permit bank holding companies to engage in activities that are "so closely related to banking or managing or controlling banks as to be a proper incident thereto."

One of the businesses found thus far by the Board to be closely related to banking is "acting as investment or financial adviser, including (i) serving as the advisory company for a mortgage or a real estate investment trust and (ii) furnishing economic or financial information."

The Board now proposes to amend this activity to read as follows:

"Acting as investment or financial adviser, including (i) serving as the advisory company for a mortgage or a real estate investment trust; (ii) serving as investment adviser to an investment company registered under the Investment Company Act of 1940; and (iii) furnishing economic or financial information."

Printed on the reverse side is the text of the notice of proposed rule making. Comments thereon should be submitted by September 24 and may be sent to our Bank Applications Department. Additional copies of this circular will be furnished upon request.

Alfred Hayes,
President.

(Over)

(Reg. Y)
BANK HOLDING COMPANIES

Interests in Nonbanking Activities

On May 27, 1971, the Board of Governors announced the initial implementation of its regulatory authority under section 4(c)(8) of the Bank Holding Company Act to permit holding companies to engage directly or through a subsidiary in activities that are "so closely related to banking or managing or controlling banks as to be a proper incident thereto" (36 F.R. 10777).

One of the activities the Board determined to be closely related to banking is "acting as investment or financial adviser, including (i) serving as the advisory company for a mortgage or a real estate investment trust and (ii) furnishing economic or financial information". In announcing that determination the Board indicated that acting as investment adviser to an open-end investment company is not regarded by the Board as within the description of this activity. The Board stated that it was considering whether to propose expanding such activity to include acting in that capacity.

The Board has considered such action in the light of the United States Supreme Court's decision in Investment Company Institute v. Camp (401 U.S. 617). It has concluded that such decision does not affect the Board's authority to permit holding companies to provide advisory services to open-end or closed-end investment companies.

Accordingly, the Board proposes to amend § 222.4(a) of Regulation Y to permit bank holding companies, subject to the pro-

cedures of § 222.4(b), to serve as an investment adviser to an investment company. The text of the proposed amendment reads as follows:

§ 222.4 Nonbanking activities.

(a) Activities closely related to banking or managing or controlling banks.

* * * * *

The following activities have been determined by the Board to be so closely related to banking or managing or controlling banks as to be a proper incident thereto:

* * * * *

(5) acting as investment or financial adviser, including (i) serving as the advisory company for a mortgage or a real estate investment trust; (ii) serving as investment adviser to an investment company registered under the Investment Company Act of 1940; and (iii) furnishing economic or financial information.

* * * * *

To aid in the consideration by the Board of this matter, interested persons are invited to submit relevant data, views, or arguments. In accordance with the provisions of § 4(c)(8) of the Act, interested persons are also given opportunity to request a hearing on this matter. Any comments or requests for hearing should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551, to be received not later than September 24, 1971. Such material will be made available for inspection and copying upon request, except as provided in § 261.6(a) of the Board's Rules Regarding Availability of Information.