

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 9281
April 20, 1982]

BANK HOLDING COMPANIES

Application to Engage in Securities Brokerage and Extend Margin Credit

*To All Bank Holding Companies, and Others Concerned,
in the Second Federal Reserve District:*

The following statement has been issued by the Board of Governors of the Federal Reserve System:

The Federal Reserve Board has asked for public comment on the application of a bank holding company to own a securities firm and engage in certain securities brokerage and related activities.

The Board asked for comment by May 29, 1982.

The Board acted on the basis of an application by BankAmerica Corporation to acquire The Charles Schwab Corporation and, in connection with this acquisition, 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 on the questions 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.

The Board has not previously determined that these activities are generally permissible for bank holding companies and is not proposing by this action to make such a determination at this time.

Printed on the following pages is the text of the Board's notice in this matter. Comments thereon should be submitted by May 29, 1982, and may be sent to our Domestic Banking Applications Department.

ANTHONY M. SOLOMON,
President.

FEDERAL RESERVE SYSTEM

BANKAMERICA CORPORATION

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 section 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 C.F.R. § 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 safekeeping 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 customer's account. Last, Applicant would offer its brokerage customers access to 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 section 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. § 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 C.F.R. § 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.

(Signed) James McAfee

James McAfee
Associate Secretary of the Board

[SEAL]