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MEMORANDUM

March 13, 2000

To: Our Clients and Friends

Re: Federal Reserve Action on Activities of Financial Holding Companies

Proposed amendments to Regulation Y (Bank Holding Companies and Change in Bank Control) to implement the provisions of the Gramm-Leach-Bliley Act relating to financial activities permissible for financial holding companies and procedures for financial holding companies to engage in those activities

The Gramm-Leach-Bliley Act (GLBA) provides that, in most cases, a financial holding company may engage or acquire the shares of a company engaged in financial activities without obtaining the Board's approval. The GLBA allows the Board to expand the list of financial activities permissible for financial holding companies. The GLBA provides that a financial holding company may engage in activities that the Board determines are complementary to existing financial activities and do not pose a substantial risk to the safety or soundness of the depository institutions or the financial system generally.

In order to implement the provisions of the GLBA, the Board approved an interim amendment to Regulation Y, effective March 11, 2000. The amendment includes a list of financial activities that are permissible activities for financial holding companies. The rule explains the regulatory process that governs commencement of financial activities. The rule requires that the financial holding company file a post-commencement notice with the appropriate Reserve Bank that includes a description of the activity and the identity of the company engaged in the activity.

The rule allows any party to request that the Board determine that an activity not listed in the GLBA is financial in nature of incidental to a financial activity.

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The rule establishes procedures that govern how the Board will determine whether activities are complementary to a financial activity. The rule requires that requests to engage in complimentary activities provide information about the impact of the proposed activity on safety and soundness, possible adverse effects, and the financial and managerial resources of the financial holding company.

Amendments to Regulation Y (Bank Holding Companies and Change in Bank Control) concerning the application of section 20 operating standards to financial holding companies

Under the GLBA, underwriting, dealing, and making a market in securities are permissible financial activities for financial holding companies. Bank holding companies may engage in these activities only through so-called section 20 subsidiaries. The GLBA grants the Board authority to impose prudential limitations on relationships between a depository institution and any affiliate if the Board finds that such limitations are appropriate to avoid significant risks to the safety and soundness of the depository institution or the federal deposit insurance funds, to avoid other adverse effects, or to prevent evasion of the banking laws.

The interim rule continues for affiliations of securities firms with financial holding companies two of eight operating standards that are currently imposed on bank holding companies that control section 20 affiliates. The interim regulation imposes a restriction requiring intra-day extensions of credit to a securities firm from an affiliated bank or thrift or U.S. branch or agency of a foreign bank to be on market terms. The rule also imposes a restriction which applies the limitations of sections 23A and 23B of the FRA to loans and other covered transactions between a U.S. branch or agency of a foreign bank and a securities affiliation.

Rules to permit state member banks to acquire financial subsidiaries under the Gramm-Leach-Bliley Act

Section 121 of the GLBA authorizes state member banks to control, or hold an interest in, financial subsidiaries that engage in activities that are financial in nature or incidental to a financial activity.

The rule specifies certain activities that are impermissible for a financial subsidiary of a member bank under Section 121. The rule also specifies procedures for a state member bank to follow to acquire control of, or an interest in, a financial subsidiary. The rule includes the remedial procedures provided for in the GLBA if a bank fails to meet the capital management requirements, or the safeguard provisions.

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The adopted amendment to Regulation H permits state member banks to own financial subsidiaries that underwrite, deal in, and make a market in securities, an activity previously prohibited for state member banks by the Glass-Steagall Act.

If you have any questions concerning the amendments or rules, please call Gilbert Schwartz, Robert Ballen or Tom Fox at 202-776-0700.