NEWS RELEASE

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FDIC REVISES PROPOSED RULE ON BANK SUBSIDIARY SECURITIES ACTIVITIES

The Board of Directors of the Federal Deposit Insurance Corporation today issued a revised proposed regulation amending its May 9, 1983, proposed regulation that addressed the securities activities of subsidiaries and affiliates of insured nonmember banks.

The FDIC issued the revised proposed regulation because of the complexity of the issues involved in the securities activities of insured nonmember bank subsidiaries, and to give interested parties an opportunity to comment on substantive changes in the May 1983 proposal. Today's Board action follows the adoption on August 23, 1982, of a policy statement on the applicability of the Glass-Steagall Act to such securities activities, the issuance of an Advance Notice of Proposed Rulemaking on September 20, 1982, and the subsequent proposed rulemaking in May 1983.

The FDIC's revised proposed regulation more specifically addresses the risks associated with the securities activities of insured nonmember bank subsidiaries. The revised proposal (1) defines a bona fide subsidiary, (2) limits an insured nonmember bank's permissible direct and indirect investments in its securities subsidiary, (3) requires notice of intent to invest in a securities subsidiary, (4) limits the permissible securities activities of insured nonmember bank subsidiaries, and (5) places certain other restrictions on loans, extensions of credit, and other transactions between insured nonmember banks and their subsidiaries or affiliates that engage in securities activities.

(more)

A significant change in the revised proposed regulation eliminates the restriction found in the May 1983 proposal that would have permitted the bank's subsidiary to underwrite any security on a best-efforts basis only. The new proposed regulation permits an insured nonmember bank to establish or acquire a subsidiary that underwrites investment quality debt and equity securities, underwrites mutual funds that invest exclusively in investment quality debt and equity securities, or underwrites money market fund type mutual funds. The best-efforts aspect of the May 1983 proposal would not have provided the insulation to insured nonmember banks that it was intended to provide, and in fact could have been detrimental.

Bank subsidiary participation in the underwriting market for new securities issues will likely lower underwriting costs for issuers in a number of markets. The presence of new entrants in the underwriting and discount brokerage markets should increase investor awareness, provide for greater customer convenience and lower brokerage costs to investors as fee and service competition increases. The regulation reduces the potential for conflicts of interest, helps ensure that banks are adequately insulated from their subsidiaries, and prevents these subsidiaries from engaging in excessive risk taking.

The FDIC solicited comments on its revised proposed regulation from interested parties. Comments must reach the FDIC no later than 30 days following the proposal's publication in the Federal Register. Copies of the proposed regulation are attached.

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Distribution: Insured State Nonmember Banks (Commercial and Mutual)