FDIC

FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

FOR IMMEDIATE RELEASE

PR-142-84 (11-23-84)

FDIC ADOPTS FINAL REGULATIONS GOVERNING BANKS' SECURITIES ACTIVITIES

The Board of Directors of the Federal Deposit Insurance Corporation has approved final regulations setting forth standards to govern the securities activities of insured nonmember banks.

"In approving these regulations, the FDIC is not authorizing such activities," noted FDIC Chairman William M. Isaac. "Rather, we are saying that the Glass-Steagall Act doesn't prohibit such activity for insured nonmember banks, and we are seeking merely to fulfill our statutory responsibility to ensure safe and sound banking operations by establishing safeguards in this area."

The FDIC's action is the culmination of more than two years of work, beginning with the adoption of a policy statement in August 1982 concerning the applicability of the Glass-Steagall Act to securities activities of nonmember banks. The following month, the FDIC adopted an Advance Notice of Proposed Rulemaking to solicit comment on the need for such regulations. On May 9, 1983, the Corporation issued a proposed regulation on securities activities and on May 12, 1984, a revised proposed regulation.

The regulations comprehensively address the involvement by insured nonmember banks in securities activities. First, because the Glass-Steagall Act permits insured nonmember banks to establish or acquire a bona fide subsidiary that engages in securities activities or to become affiliated with a company engaged in such activities, the regulations define the terms "bona fide subsidiary" and "affiliate." The regulations require the subsidiary or affiliate to be physically separate and distinct from the bank, but permit a

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securities office to operate within a branch of the bank if that office is clearly identified and does not share a common entrance with the bank, other than a common outer lobby or corridor.

Next, the regulations restrict a nonmember bank subsidiary's underwriting activities to investment quality debt and investment quality equity securities, but lift this product restriction if the subsidiary is a "qualified underwriter," as defined in the regulations.

Third, the regulations require a bank to notify the FDIC of its intent to establish or acquire a securities subsidiary, but do not require such notice when a bank becomes affiliated with a securities company.

Fourth, the regulations restrict lending by a bank under certain conditions in connection with the securities activities of its subsidiary or affiliate. These restrictions are designed to prevent abuse of a bank's credit facilities. Other provisions also restrict a bank's purchase, as fiduciary or managing agent, of securities through its subsidiary or affiliate, and limit a bank's trust department in transacting business through the subsidiary or affiliate.

Fifth, the final regulations drop a provision proposed earlier that a bank's investment in one or more securities subsidiaries be limited to 20 percent of its primary capital.

Next, an anti-tying provision prohibits a bank from conditioning an extension of credit to any company on the requirement that the company contract with the bank's subsidiary or affiliate to underwrite or distribute that company's securities.

In a different area, the regulations require any bank that established or acquired a securities subsidiary or affiliate prior to the effective date of the final regulations to comply with certain sections of the regulations within one year of the effective date, unless the FDIC grants its approval for a longer time period. These sections describe when a subsidiary must be a bona fide subsidiary, delineate affiliations with securities companies, and place lending and other restrictions on the bank.

Finally, the regulations determine that foreign banks with insured branches in the U.S. are exempt from the regulations but domestic insured nonmember banks owned by foreign banks are subject to the regulations, as are federally-chartered savings banks insured by the FDIC.

The FDIC's final regulations will become effective 30 days from the date of their publication in the Federal Register. A copy of the regulations is attached.

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