

FEDERAL RESERVE SYSTEM

Wells Fargo & Company
San Francisco, California

Order Approving Notice to Engage in Nonbanking Activities

Wells Fargo & Company (“Wells Fargo”), a bank holding company within the meaning of the Bank Holding Company Act (“BHC Act”), has requested the Board’s approval under section 4(c)(8) of the BHC Act (12 U.S.C. § 1843(c)(8)) and section 225.24 of the Board’s Regulation Y (12 C.F.R. 225.24) to acquire all the outstanding voting shares of Ragen MacKenzie Group Incorporated (“Ragen MacKenzie”), and thereby acquire control of its subsidiaries, Ragen MacKenzie Incorporated (“Company”) and Ragen MacKenzie Investment Services, Inc., all in Seattle, Washington. Wells Fargo would thereby engage in the following nonbanking activities:

- (1) providing financial and investment advisory services, in accordance with section 225.28(b)(6) of Regulation Y (12 C.F.R. 225.28(b)(6));
- (2) providing securities brokerage, riskless principal, private placement, and other agency transactional services, in accordance with section 225.28(b)(7)(i), (ii), (iii), and (v) of Regulation Y (12 C.F.R. 225.28(b)(7)(i), (ii), (iii), and (v));
- (3) underwriting and dealing in government obligations and money market instruments in which state member banks may underwrite and deal under 12 U.S.C. §§ 335 and 24(7) (“bank-eligible securities”), and engaging in investing and trading activities, in accordance with section 225.28(b)(8)(i) and (ii) of Regulation Y (12 C.F.R. 225.28(b)(8)(i) and (ii)); and
- (4) underwriting and dealing in, to a limited extent, all types of debt and equity securities other than interests in open-end investment companies (“bank-ineligible securities”).

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (65 Federal Register 3963 (2000)). The time for filing comments has expired, and the Board has considered the notice and all comments received in light of the factors set forth in section 4(c)(8) of the BHC Act.

Wells Fargo, with total consolidated assets of approximately \$207 billion, is the seventh largest banking organization in the United States.¹ Wells Fargo operates subsidiary banks with branches in numerous western and midwestern states, and engages through other subsidiaries in a broad range of permissible nonbanking activities. Ragen MacKenzie, with total consolidated assets of \$649 million, engages directly and indirectly in a broad range of securities underwriting and dealing, securities brokerage, investment advisory, and other activities.² Company is, and after consummation of the proposal will continue to be, registered as a broker-dealer with the Securities and Exchange Commission (“SEC”) under the Securities Exchange Act of 1934 (15 U.S.C. § 78a *et seq.*) and a member of the National Association of Securities Dealers, Inc. (“NASD”). Accordingly, Company is, and will continue to be, subject to the record-keeping and reporting obligations, fiduciary standards, and other requirements of the Securities Exchange Act of 1934, the SEC, and the NASD.

Wells Fargo, through its existing section 20 subsidiary, Norwest Investment Services, Inc., Minneapolis, Minnesota (“NISI”), currently underwrites and deals in, to a limited extent, certain types of bank-ineligible debt securities and

¹ Asset and ranking data are as of September 30, 1999.

² Ragen MacKenzie currently holds certain investments in securities that may exceed the levels permissible for bank holding companies. Wells Fargo has committed to conform, within two years of consummation of the proposal, all investments held by Ragen MacKenzie and its subsidiaries to the requirements of section 4 of the BHC Act and the Board’s regulations and interpretations thereunder.

engages in other permissible nonbanking activities.³ Wells Fargo does not propose to merge NISI with Company at this time.

Underwriting and Dealing in Bank-Ineligible Securities

The Board previously determined that, subject to the framework of prudential limitations established in previous decisions to address the potential for conflicts of interests, unsound banking practices, or other adverse effects, underwriting and dealing in bank-ineligible securities is so closely related to banking as to be a proper incident thereto within the meaning of section 4(c)(8) of the BHC Act.⁴ The Board also previously determined that underwriting and dealing in bank-ineligible securities are consistent with section 20 of the Glass-Steagall Act (12 U.S.C. § 377), provided that the company engaged in the activity derives no more than 25 percent of its gross revenues from underwriting and dealing in bank-ineligible securities.⁵ Wells Fargo has committed that Company will conduct its

³ See Norwest Corporation, 84 Federal Reserve Bulletin 552 (1998).

⁴ See J.P. Morgan & Co. Inc., et al., 75 Federal Reserve Bulletin 192 (1989), aff'd sub nom. Securities Industry Ass'n v. Board of Governors of the Federal Reserve System, 900 F.2d 360 (D.C. Cir. 1990); Citicorp, 73 Federal Reserve Bulletin 473 (1987), aff'd sub nom. Securities Industry Ass'n v. Board of Governors of the Federal Reserve System, 839 F.2d 47 (2d Cir.), cert. denied, 486 U.S. 1059 (1988), as modified by Review of Restrictions on Director, Officer and Employee

Interlocks, Cross-Marketing Activities, and the Purchase and Sale of Financial Assets Between a Section 20 Subsidiary and an Affiliated Bank or Thrift, 61 Federal Register 57,679 (1996); Amendments to Restrictions in the Board's Section 20 Orders, 62 Federal Register 45,295 (1997); and Clarification to the Board's Section 20 Orders, 63 Federal Register 14,803 (1998) (collectively, "Section 20 Orders").

⁵ Compliance with the revenue limitation shall be calculated in accordance with the method stated in the Section 20 Orders, as modified by the Order Approving Modifications to the Section 20 Orders, 75 Federal Reserve Bulletin 751 (1989); 10 Percent Revenue Limit on Bank-Ineligible Activities of Subsidiaries of Bank Holding Companies Engaged in Underwriting and Dealing in Securities, 61 Federal Register 48,953 (1996); and Revenue Limit on Bank-Ineligible Activities of Subsidiaries of Bank Holding Companies Engaged in Underwriting and Dealing in (continued...)

underwriting and dealing activities using the methods and procedures and subject to the prudential limitations established by the Board in the Section 20 Orders. Wells Fargo also has committed that Company will conduct its bank-ineligible securities underwriting and dealing activities subject to the Board's revenue restriction.⁶ As a condition of this order, Wells Fargo is required to conduct the bank-ineligible securities activities of Company subject to the revenue restrictions and Operating Standards established for section 20 subsidiaries ("Operating Standards").⁷

Other Activities Approved by Regulation or Order

The Board previously determined that financial and investment advisory activities; securities brokerage, riskless principal, private placement, and other agency transactional activities; bank-eligible securities underwriting and dealing; and investing and trading activities are closely related to banking within the

Securities, 61 Federal Register 68,750 (1996) (collectively, "Modification Orders").

In light of the fact that Wells Fargo proposes to acquire Company as a going concern, the Board concludes that allowing Company to calculate compliance with the revenue limitation on an annualized basis during the first year after consummation, and thereafter on a rolling quarterly average basis, would be consistent with the Section 20 Orders. See U.S. Bancorp, 84 Federal Reserve Bulletin 483 (1998); Dauphin Deposit Corporation, 77 Federal Reserve Bulletin 672 (1991).

⁶ As noted above, Wells Fargo intends to operate Company and NISI as separate corporate entities. Company and NISI will be independently subject to the 25-percent revenue limitation on underwriting and dealing in bank-ineligible securities. See Citicorp, 73 Federal Reserve Bulletin 473, 486 n.45 (1987), aff'd sub nom. Securities Industry Ass'n v. Board of Governors of the Federal Reserve System, 839 F.2d 47 (2d Cir.), cert. denied, 486 U.S. 1059 (1988).

⁷ 12 C.F.R. 225.200. Company may provide services that are necessary incidents to the proposed underwriting and dealing activities. Unless Company receives specific approval under section 4(c)(8) of the BHC Act to conduct the incidental activities independently, any revenues from such activities must be treated as ineligible revenues subject to the Board's revenue limitation.

meaning of section 4(c)(8) of the BHC Act.⁸ Wells Fargo has committed that it will conduct these activities in accordance with the limitations set forth in Regulation Y and the Board's orders and interpretations relating to each of the activities.

Other Considerations

In order to approve this notice, the Board also must determine that performance of the proposed activities is a proper incident to banking; that is, that the proposed activities "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."⁹ As part of its review of these factors, the Board considers the financial and managerial resources of the notificant and its subsidiaries and the effect the transaction would have on such resources.¹⁰

In considering the financial resources of the notificant, the Board has reviewed the capitalization of Wells Fargo and Company in accordance with the standards set forth in the Section 20 Orders and has found the capitalization of each to be consistent with approval. This determination is based on all the facts of record, including Wells Fargo's projections of the volume of the bank-ineligible underwriting and dealing activities of Company.

The Board also has reviewed the managerial resources of each of the entities involved in this proposal in light of examination reports and other supervisory information. In connection with the proposal, the Federal Reserve Bank of Minneapolis ("Reserve Bank") has reviewed the policies and procedures of Company to ensure compliance with this order and the Section 20 Orders, including

⁸ See 12 C.F.R. 225.28(b)(6), (7)(i), (ii), (iii), and (v), and (8)(i) and (ii).

⁹ 12 U.S.C. § 1843(c)(8).

Company's operational and managerial infrastructure; computer, audit, and accounting systems; and internal risk management procedures and controls. On the basis of the Reserve Bank's review and all other facts of record, including the commitments provided in this case and the proposed managerial and risk management systems of Company, the Board has concluded that financial and managerial considerations are consistent with approval of the notice.

The Board has carefully considered the competitive effects of the proposal. To the extent that Ragen MacKenzie offers different types of products and services than Wells Fargo, the proposed acquisition would result in no loss of competition. In those markets where the product offerings of Wells Fargo's nonbanking subsidiaries overlap with the product offerings of Ragen MacKenzie, such as securities brokerage, investment advisory, and securities underwriting and dealing activities, there are numerous existing and potential competitors. Consummation of the proposal, therefore, would have a de minimis effect on competition in the markets for these services, and the Board has concluded that the proposal would not have significantly adverse competitive effects in any relevant market.

The Board also expects that consummation of the proposal would provide added convenience to the customers of Wells Fargo and Ragen MacKenzie. Wells Fargo has indicated that consummation of the proposal would expand the range of products and services available to its customers and those of Ragen MacKenzie. Wells Fargo also has stated that the proposal would allow it to be a more effective competitor in the financial services industry. In addition, there are public benefits to be derived from permitting capital markets to operate so that bank holding companies can make potentially profitable investments in nonbanking

¹⁰ See 12 C.F.R. 225.26.

companies and from permitting banking organizations to allocate their resources in the manner they consider to be most efficient when such investments and actions are consistent, as in this case, with the relevant considerations under the BHC Act.

Based on all the facts of record, the Board has determined that performance of the proposed activities by Wells Fargo, under the framework established in this and prior decisions, can reasonably be expected to produce public benefits that outweigh any reasonably expected adverse effects of the proposal. Accordingly, the Board has determined that the performance of the proposed activities by Wells Fargo is a proper incident to banking for purposes of section 4(c)(8) of the BHC Act.

Conclusion

On the basis of all the facts of record, the Board has determined that the notice should be, and hereby is, approved, subject to all the terms and conditions described in this order and the Section 20 Orders, as modified by the Modification Orders. The Board's approval of the proposal extends only to activities conducted within the limitations of this order, including the Board's reservation of authority to establish additional limitations to ensure that the activities of Company are consistent with safety and soundness, avoidance of conflicts of interests, and other relevant considerations under the BHC Act. Underwriting and dealing in any manner other than as approved in this order is not within the scope of the Board's approval and is not authorized for Company.

The Board's determination also is subject to all the terms and conditions set forth in Regulation Y, including those in sections 225.7 and 225.25(c) (12 C.F.R. 225.7 and 225.25(c)), and to the Board's authority to require modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to ensure compliance with, or to prevent evasion of, the provisions and purposes of the BHC Act and the Board's regulations

and orders issued thereunder. The Board's decision is specifically conditioned on compliance with all the commitments made in connection with this notice, including the commitments discussed in this order and the conditions set forth in this order and the Board regulations and orders noted above. The commitments and conditions are deemed to be conditions imposed in writing by the Board in connection with its findings and decision, and, as such, may be enforced in proceedings under applicable law.

This proposal shall not be consummated later than three months after the effective date of this order, unless such period is extended for good cause by the Board or the Reserve Bank of San Francisco, acting pursuant to delegated authority.

By order of the Board of Governors,¹¹ effective March 13, 2000.

(signed)

Robert deV. Frierson
Associate Secretary of the Board

¹¹ Voting for this action: Chairman Greenspan and Governors Kelley, Meyer, and Gramlich. Absent and not voting: Vice Chairman Ferguson.