

FEDERAL RESERVE SYSTEM

UniCredito Italiano S.p.A.
Milan, Italy

Order Approving Notice to engage in Nonbanking Activities

UniCredito Italiano S.p.A. (“UniCredito”), a foreign bank subject to the provisions of the Bank Holding Company Act (“BHC Act”),¹ has requested the Board’s approval under sections 4(c)(8) and 4(j) of the BHC Act (12 U.S.C. §§ 1843(c)(8) and 1843(j)) and section 225.24 of the Board’s Regulation Y (12 C.F.R. 225.24)) to acquire The Pioneer Group, Inc., Boston, Massachusetts (collectively with its subsidiaries “Pioneer”), and thereby engage in the following nonbanking activities:

1. providing financial and investment advisory services, pursuant to section 225.28(b)(6) of Regulation Y (12 C.F.R. 225.28(b)(6));
2. providing certain administrative services for open-end investment companies (“mutual funds”);
3. providing agency transactional services, in accordance with section 225.28(b)(7) of Regulation Y (12 C.F.R. 225.28(b)(7));
4. acting as a general partner or managing member for certain private investment funds that invest in assets in which a bank holding company is permitted to invest; and
5. acting as a commodity pool operator for private investment funds organized as commodity pools that invest in assets in which a bank holding company is permitted to invest.

¹ As a foreign bank operating a branch and representative offices in the United States, UniCredito is subject to certain provisions of the BHC Act by operation of section 8(a) of the International Banking Act of 1978 (12 U.S.C. § 3106(a)).

Notice of the proposal affording interested persons an opportunity to submit comments has been published (65 Federal Register 43,763 (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 of the BHC Act.

UniCredito, with total consolidated assets of approximately \$180 billion, is the second largest banking organization in Italy and the 54th largest banking organization in the world.² In the United States, UniCredito operates a branch in New York, New York; and representative offices in Los Angeles, California; Chicago, Illinois; and New York, New York. Pioneer, with total consolidated assets of approximately \$300 million and total assets under management of approximately \$24 billion,³ engages in investment and financial advisory activities and provides administrative services to mutual funds and other institutional customers.⁴

² UniCredito asset data are as of June 30, 2000, and are based on foreign exchange rates as of that date. Foreign and world ranking data are as of December 31, 1999, and are based on foreign exchange rates as of that date.

³ Pioneer asset data are as of December 31, 1999.

⁴ Pioneer currently engages in certain activities, including the distribution of mutual fund shares, and controls certain investment vehicles that have investments that are not permissible for a bank holding company. UniCredito has committed to conform the activities, investments, and relationships of Pioneer to those permissible for a bank holding company within two years of acquiring Pioneer. In some cases, mutual funds advised and administered by Pioneer would not have a distributor. In these cases, UniCredito has committed to ensure that Pioneer would not be engaged in distributing these funds. See Lloyds TSB Group plc, 84 Federal Reserve Bulletin 116 (1998) (“Lloyds”). Among these commitments are that the so-called distributorless funds would employ a marketing officer who is independent of UniCredito and Pioneer, and who would initiate contact with financial intermediaries regarding the sale of fund shares, negotiate broker selling

Pioneer is, and after consummation of the proposal will continue to be, registered with the Securities and Exchange Commission (“SEC”) as an investment advisor under the Investment Advisors Act of 1940 (“1940 Act”), as a broker-dealer under the Securities Exchange Act of 1934 (15 U.S.C. § 78a et seq.) (“1934 Act”), and a member of the National Association of Securities Dealers, Inc. (“NASD”). Accordingly, Pioneer is subject to the recordkeeping and reporting obligations, fiduciary standards, and other requirements of the 1934 Act, the 1940 Act, the SEC, and the NASD.

Mutual Fund Activities

The Board previously has determined that providing administrative services to mutual funds is closely related to banking within the meaning of section 4(c)(8) of the BHC Act.⁵ UniCredito proposes to provide through Pioneer investment advisory, securities brokerage, and mutual fund administrative services that previously have been approved by the Board, and UniCredito has committed that the proposed activities will be conducted in compliance with Regulation Y and subject to the prudential and other limitations established by the Board.⁶

agreements on behalf of the funds, and be responsible for placing, reviewing, and filing with regulators advertisements on behalf of the funds.

⁵ See, e.g., Societe Generale, 84 Federal Reserve Bulletin 680 (1998) (“SoGen”); Bankers Trust New York Corporation, 83 Federal Reserve Bulletin 780 (1997) (“BTNY”); Commerzbank AG, 83 Federal Reserve Bulletin 679 (1997).

⁶ See, e.g., SoGen, BTNY. The administrative services that UniCredito would provide to mutual funds through Pioneer include computing the funds’ financial data, maintaining and preserving the records of the funds, providing office facilities and clerical support for the funds, and preparing and filing tax returns for the funds. The services are listed in the Appendix.

UniCredito also proposes to have certain director and officer interlocks with the funds. In particular, UniCredito proposes that up to 25 percent of the directors of a mutual fund would be employees, officers, or directors of UniCredito or one of its subsidiaries, including Pioneer. UniCredito proposes that one of these directors may serve as chairman of the board of the fund. In addition, UniCredito seeks to have up to three directors, officers, or employees of UniCredito or its subsidiaries serve as senior officers of the fund and other UniCredito personnel serve as junior-level officers of the fund.⁷

The Board previously has authorized a bank holding company and its nonbank subsidiaries to have limited director and officer interlocks with mutual funds that the bank holding company advises and administers.⁸ As in previous cases, the funds in this case would be controlled by their independent directors, and the independent directors would be responsible for the selection and review of the investment adviser, the underwriter, and other major service contractors of the fund.⁹

⁷ Senior officers include the president, secretary, treasurer, and vice-presidents with policymaking functions. Junior officers include assistant secretaries, assistant treasurers and assistant vice-presidents of the funds. Junior officers are fund employees who have no authority or responsibility to make policy.

⁸ See, e.g., SoGen; BTNY; Lloyds; Travelers Group Inc., 84 Federal Reserve Bulletin 985 (1998); BankAmerica Corporation, 83 Federal Reserve Bulletin 913 (1997); The Governor and Company of the Bank of Ireland, 82 Federal Reserve Bulletin 1129 (1996).

⁹ Under the 1940 Act, at least 40 percent of the board of directors of a mutual fund must be individuals who are not affiliated with the mutual fund. The 1940 Act and related regulatory provisions require that the independent directors annually review and approve the mutual fund's investment advisory contract and any plan of distribution or related agreement.

Other Activities Approved by Regulation or Order

The Board has previously determined that providing financial and investment advisory services, providing agency transactional services for customer investments, acting as a general partner or managing member for private investment funds that make investments that a bank holding company may make, and acting as a commodity pool operator are all closely related to banking within the meaning of section 4(c)(8) of the BHC Act.¹⁰ UniCredito 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.¹¹

Other Considerations

In order to approve the proposal, the Board is required by section 4(j)(2)(A) of the BHC Act to determine that the acquisition of Pioneer by UniCredito "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."¹²

As part of its evaluation of these factors, the Board considers the financial and managerial resources of UniCredito and its subsidiaries, including the companies to be acquired, and the effect of the proposed transaction on those

¹⁰ See 12 C.F.R. 225.28(b)(6) and (7); Dresdner Bank AG, 84 Federal Reserve Bulletin 361 (1998) ("Dresdner").

¹¹ See 12 C.F.R. 225.28(b)(6) and (7); Dresdner.

¹² 12 U.S.C. § 1843(j)(2)(A).

resources.¹³ UniCredito's capital ratios satisfy applicable risk-based standards under the Basle Accord and are considered equivalent to the capital ratios that would be required of a United States banking organization. Based on all the facts of record, the Board has concluded that financial and managerial considerations are consistent with approval of the notice.

The Board also has considered the competitive effects of the proposed acquisition of Pioneer by UniCredito. To the extent that UniCredito and Pioneer offer different types of products and services, the proposal would result in no loss of competition. In those markets where the product offerings of UniCredito and its subsidiaries and Pioneer do overlap, there are numerous existing and potential competitors. As a result, consummation of the proposal would have a de minimis effect on competition for these services, and the Board has concluded that the proposal would not result in a significantly adverse effect on competition in any relevant market.

The Board also expects that the proposed transaction would give UniCredito an increased ability to serve the needs of its customers. 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 companies and from permitting banking organizations to allocate their resources in the manner they consider to be most efficient when such investments are consistent, as in this case, with the relevant considerations under the BHC Act.

The Board previously has determined that the provision of administrative services to mutual funds within the parameters established by the Board is not likely to result in certain types of subtle hazards or in other significant

¹³ See 12 C.F.R. 225.26(b); see also The Fuji Bank, Limited, 75 Federal Reserve Bulletin 94 (1989).

adverse effects. UniCredito also would be required to comply with the Board's interpretive rule on Investment Adviser Activities,¹⁴ which was designed to mitigate potential conflicts of interests and the potential for customer confusion associated with the proposed activities. Based on the foregoing and all the facts of record, the Board concludes that there is no evidence in the record to indicate that consummation of this proposal is likely to result in significantly adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices, that would outweigh the public benefits of the proposal. Accordingly, based on all the facts of record, the Board has determined that the balance of public interest factors that the Board must consider under section 4(j)(2)(A) of the BHC Act is favorable and consistent with approval of the proposal.

Conclusion

Based on the foregoing, and in light of all the facts of record, the Board has determined that the notice should be, and hereby is, approved. Approval of the notice is specifically conditioned on compliance by UniCredito with all the commitments made in connection with the proposal and with the conditions stated or referred to in this order, including the Board's reservation of authority to establish additional limitations to ensure that UniCredito's activities are consistent with safety and soundness, avoidance of conflicts of interests, and other relevant considerations under the BHC Act.

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 the Board's authority to require

¹⁴ 12 C.F.R. 225.125

such 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, and to prevent evasion of, the provisions of the BHC Act and the Board's regulations and orders thereunder. For purposes of the transaction, the commitments and conditions referred to in this order shall be 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.

The 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 by the Federal Reserve Bank of New York, acting pursuant to delegated authority.

By order of the Board of Governors,¹⁵ effective October 23, 2000.

(signed)

Robert deV. Frierson
Associate Secretary of the Board

¹⁵ Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Kelley, Meyer, and Gramlich.

Appendix

List of Administrative Services

1. Maintaining and preserving the records of the funds, including financial and corporate records.
2. Computing net asset value, dividends, performance data, and financial information regarding the funds.
3. Furnishing statistical and research data to the funds.
4. Preparing and filing with the SEC and state securities regulators registration statements, notices, reports, and other materials required to be filed under applicable laws.
5. Preparing reports and other informational materials regarding the funds, including proxies and other shareholder communications, and reviewing prospectuses.
6. Providing legal and other regulatory advice to the funds in connection with their other administrative functions.
7. Providing office facilities and clerical support for the funds.
8. Developing and implementing procedures for monitoring compliance with regulatory requirements and compliance with the funds' investment objectives, policies, and restrictions as established by the boards of directors of the funds.
9. Providing routine accounting services to the funds and liaison with outside auditors.
10. Preparing and filing tax returns.
11. Reviewing and arranging for payment of expenses for the funds.
12. Providing communication and coordination services with regard to the funds' transfer agent, custodian, distributor, and other service organizations that render distribution, recordkeeping, or shareholder communication services.

13. Preparing advertising materials, sales literature, and marketing plans for the funds.
14. Providing information to the distributor's personnel concerning performance and administration of the funds.
15. Participating in seminars, meetings, and conferences designed to present information to financial intermediaries concerning the operations of the funds, including administrative services provided by Pioneer to the funds, but not in connection with the sale of shares of the funds to the public.
16. Assisting in the development of additional funds.
17. Providing reports to the boards of directors of the funds.
18. Providing telephone shareholder services through a toll-free number (telephone service operators will not solicit callers to purchase shares in particular funds or make outgoing calls to solicit investors, but on request of a caller may provide historical performance information concerning a fund or general information concerning a fund's investment objectives).