

FEDERAL RESERVE SYSTEM

12 CFR Part 223

[Regulation W; Docket No. R-1103]

Transactions between Banks and their Affiliates; Correction

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Notice of proposed rulemaking; correction.

SUMMARY: This document supplements the preamble to a proposed Regulation W published in the Federal Register of May 11, 2001, regarding sections 23A and 23B of the Federal Reserve Act (66 FR 24186). This supplement seeks comment on whether the Board should exempt extensions of credit by a bank to any person that are secured by shares of a mutual fund for which the bank or an affiliate of the bank acts as investment adviser.

DATES: Comments on this supplement, along with any other comments on the proposed Regulation W, must be submitted on or before August 15, 2001.

FOR FURTHER INFORMATION CONTACT: Pamela G. Nardolilli, Senior Counsel (202/452-3289), or Mark E. Van Der Weide, Counsel (202/452-2263), Legal Division, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551.

SUPPLEMENTARY INFORMATION: On May 2, 2001, the Board approved, in connection with its approval of the proposed Regulation W, seeking public comment on whether to grant an exemption from section 23A of the Federal Reserve Act for transactions in which a bank takes proprietary mutual fund shares as collateral for a loan. The preamble to the proposed Regulation W inadvertently did not contain a request for comment on this issue. The following supplement to the Regulation W preamble presents this comment request.

Correction

In proposed rule FR Doc. 01-11610, beginning on page 24186 in the Federal Register issue of May 11, 2001, make the following correction in the Supplementary Information section. On page 24201 in the first column, add at the end of the first full paragraph the following:

AL. Additional Exemptions

Section 23A(b)(7)(D) includes as a covered transaction a bank's acceptance of securities issued by an affiliate as collateral for an extension of credit to any person. Section 23A(b)(1)(D)(ii) defines as an affiliate of a bank any mutual fund for which a bank or an affiliate of the bank acts as an investment adviser (Aproprietary mutual fund@). Several commenters have requested that the Board exempt from section 23A transactions in which a bank accepts proprietary mutual fund shares as collateral for an extension of credit. The Board asks for comment on whether granting such an exemption would be consistent with the purposes of section 23A. The Board also specifically seeks comment on whether to condition the availability of the exemption, if granted, on any of the following requirements: (i) the borrower does not use the proceeds of the loan to purchase shares of proprietary mutual funds; (ii) the borrower is not an executive officer of the bank or its affiliates; (iii) the price of the mutual fund shares is quoted routinely in a widely disseminated news source; (iv) the shares of the mutual fund are widely held by the public; or (v) the bank and its affiliates do not own in the aggregate more than 5 percent of the shares of the mutual fund.

The Board also invites comment on whether additional exemptions from section 23A are in the public interest and consistent with the purposes of the statute.@

By order of the Board of Governors of the Federal Reserve System, June 20,
2001.

/signed/

Jennifer J. Johnson,
Secretary of the Board.