May 12, 2000

By Hand and Via Electronic Mail

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Re: Interim Rule For Financial Activities, Docket No. R-1062

Dear Ms. Johnson:

The Securities Industry Association ("SIA")[1] welcomes the opportunity to comment on the interim rule issued by the Board of Governors of the Federal Reserve System ("Board") to implement provisions of the Gramm-Leach-Bliley Act ("GLB Act") authorizing financial holding companies ("FHCs") to engage in activities that are "financial in nature," including securities underwriting, dealing and market making. The Board's interim rule sets out a list of permissible activities that are "financial in nature" and "incidental" thereto, and the rule sets forth procedures by which FHCs may commence permissible activities. The rule also establishes how requests may be made for the Board to approve additional activities as "financial in nature," or "incidental" or "complimentary" to a financial activity. SIA commends the Board for acting quickly to enable FHCs to engage in the broad range of financial activities now permitted under the GLB Act.

The GLB Act clearly contemplates that the list of financial activities will expand to include new activities in order to keep pace with changes in the marketplace and technology. Consequently, Congress vested the Board with broad authority to add new activities to the list of approved financial activities. The Board may approve new

[1] The Securities Industry Association brings together the shared interests of more than 740 securities firms throughout North America to accomplish common goals. SIA member firms (including investment banks, broker-dealers, and mutual fund companies) are active in U.S. and foreign markets and in all phases of corporate and public finance. The U.S. securities industry manages the accounts of more than 50-million investors directly and tens of millions of investors indirectly through corporate, thrift and pension plans. The industry generates more than $300 billion of revenues yearly in the U.S. economy and employs more than 600,000 individuals.

activities based on, among other things, whether an activity is necessary or appropriate to enable FHCs: to compete effectively, to deliver information and services effectively through the use of technology, or to offer customers available or emerging technological means of using financial services.

SIA believes that -- as more and more FHCs come into existence with affiliates engaged in securities, banking and insurance activities -- such institutions should be able to diversify their activities to the broadest extent possible to meet the needs of their customers and to compete effectively. For this reason, SIA strongly recommends that the list of permissible financial activities included in the interim rule be expanded as follows:

1. The list should expressly permit acting as a "finder" for non-broker/dealer activities. The "finder" activity includes identifying potential parties, making inquiries as to interest, introducing or arranging meetings of interested parties, and otherwise bringing parties together for transactions. The finder activity, similar in kind to broker activities, is clearly financial in nature, is generally riskless, and is becoming increasingly important in the context of the Internet and e-commerce.

2. The list should permit a full range of data processing activities, beyond those activities that are permitted under the current regulatory scheme. Many data processing, storage and information retrieval activities are truly "hybrid" activities that inextricably intertwine pure financial activities with activities that are "incidental" and "complementary" thereto. As the Internet and electronic commerce become increasingly important parts of the financial marketplace and economy, FHCs should have the ability to engage in a full range of e-commerce and data processing activities.

3. The list should state that any activity that is approved by the Office of the Comptroller of Currency ("OCC") or the Federal Deposit Insurance Corporation ("FDIC") as permissible for depository institutions and their subsidiaries is *automatically* "financial in nature" and permissible for FHCs. Clearly, activities that have been determined to be permissible for depository institutions, whether as part of or incidental to the business of banking, or by any other standard, are "financial in nature." In general, these activities could be safely conducted within a FHC's banking, securities or other affiliate.

SIA believes that the GLB Act's provision for the activities of FHCs to advance with changes in technology and the marketplace is essential to the future of the financial services industry. The ability to adapt and innovate will determine which financial institutions are competitors in the increasingly global economy. Expanding the list of permissible activities also will accord with the intent of Congress to ensure a vigorous financial industry and will allow financial institutions to diversify their customer

offerings and become the financial supermarkets envisioned by the GLB Act. All of this will benefit consumers by providing them with more choices at lower costs.

The Board's release seeks comment on the types of commitments and conditions that the Board has imposed on FHCs under section 4(c)(8) that may hinder the ability to conduct expanded activities under section 4(k)(4). It is SIA's understanding that all of the commitments and conditions that have been imposed by the Board on activities now included under section 4(k)(4) of the Bank Holding Company Act, including securities underwriting, dealing and market making, are nullified because these activities are now expressly authorized by the GLB Act. Thus, FHCs and their securities affiliates can engage in underwriting, dealing and market making without restriction and free of any commitments or conditions that the Board may have imposed on these activities in the past under section 4(c)(8).

Lastly, SIA submits that section 225.82(c)(2) of the interim rule exceeds the Board's authority under the GLB Act. Section 225.82(c)(2) provides that the "Board may, if appropriate . . . including under section 225.82(d) or 225.83(d) . . . require a financial holding company to provide prior notice to or obtain prior approval from the Board to engage in any activity or acquire shares or control of any company." SIA's concern -- as expressed in our comment letter dated March 27, 2000, on the Board's interim rule on electing FHC status (Docket No. R-1057) -- is that there is no statutory basis for sections 225.82(d) and 225.83(d) because the GLB Act is devoid of any provision granting the Board authority to limit FHCs that meet the statutory criteria. Accordingly, a supervisory action under section 225.82(c)(2) cannot be premised on sections 225.82(d) or 225.83(d) because those sections have no basis in the GLB Act.

If we can provide any further information, please contact the undersigned at (202) 296-9410.

Sincerely,

Alan E. Sorcher
Assistant Vice President and
Assistant General Counsel