application, could not underwrite and deal in. This is an exemption from Section 20 of the Glass-Stegall Act (Section 20 exemption).

We claim this Section 20 exemption requires the staff to more broadly analyze the banks' activities in meeting the credit need of the community. We feel this includes reviewing the CRA-related activities of Morgan Guaranty Trust Company of New York and J.P. Morgan Securities Inc. (JPMSI). In addition, we feel this review necessitates an examination designed to uncover any discriminatory business lending practices. This would include inspecting the gender and ethnic makeup of the government entities/regions or owners of firms using the following services provided by the applicant.

a. Municipal Revenue Bonds/Securities

b. Mortgage related securities

c. Commercial Paper

d. Consumer - receivable related securities("CRR's")

Activities in at least one of the above functional areas have been defined by the Federal Reserve Board (in an Order Approving Application to Engage in Commercial Paper Placement to a Limited Extent (Federal Reserve Bulletin, Feb. 1987, p. 148)) as "so functionally and operationally similar to the role of a bank that arranges a loan participation or syndication that banking organizations are particularly well suited to perform the commercial paper placement function."

A copy of the grounds for review follows.

August 26, 1996 (Revised & Resubmitted by Facsimile on August 28, 1996)

Mr. William Wiles
Secretary
Federal Reserve Board
20th & Constitution Ave., N.W.
Washington, D.C. 20551

Dear Mr. Wiles:

I am writing with respect to three proposals (Docket Numbers R-0841, R-0701, and R-0932) recently announced by the Federal Reserve Board. The Board, in a July 31, 1996 press release stated:

"The Federal Reserve Board today requested comment on three proposals to modify the conditions under which section 20 subsidiaries of bank holding companies may underwrite and deal in securities.

The first proposal would increase the amount of revenue that a section 20 subsidiary may derive from underwriting and dealing in securities from 10 percent to 25 percent of its total revenue. Comment on this proposal is requested by September 30, 1996.

The second proposal would amend or eliminate three of the prudential limitations, or fire walls, imposed on the operations of the section 20 subsidiaries:

* the prohibition on director, officer and employee interlocks between a section 20 subsidiary and its affiliated banks or thrifts (the interlocks restriction);

* the restriction on a bank or thrift acting as an agent for, or engaging in marketing activities on behalf of, an affiliated section 20 subsidiary (the cross-marketing restriction); and

* the restriction on the purchase and sale of financial assets between a section 20 subsidiary and its affiliated bank or thrift (the financial assets restriction).

The third proposal would clarify, in an accounting change to the revenue limit, that the Board will not consider interest income earned on securities that a member bank could hold for its own account toward a section 20 subsidiary 5 revenue limit.

Comment on the second and third proposals is requested by September 3, 1996."

William Michael Cunningham and Creative Investment Research, Inc., for the reasons outlined below, oppose the first two proposed rule changes. We respectfully request the Board not make these changes and reconsider these two proposals in light of the attached comments.

Sincerely,

William Cunningham

Docket No. R-0841

Revenue Limit on Bank Ineligible Activities of Subsidiaries of Bank Holding Companies Engaged in Underwriting and Dealing in Securities.

We oppose this proposal. The proposal would increase the amount of revenue that a section 20 subsidiary may derive from underwriting and dealing in securities from 10 percent to 25 percent of its total revenue. According to the July 31, 1996 Press Release:

"Section 20 of the Glass-Steagall Act provides that a member bank may not be affiliated with a company that is 'engaged principally' in underwriting and dealing in securities. In 1987, the Board first allowed bank affiliates to engage in underwriting and dealing in bank-ineligible securities -- that is, those securities that a member bank would not be permitted to underwrite or deal in -- when the Board approved an application by three bank holding companies to underwrite and deal in commercial paper, municipal revenue bonds, mortgage-backed securities, and consumer-receivable-related securities. In 1989, the Board allowed five section 20 subsidiaries to underwrite and deal in all debt and equity securities, subject to more rigorous fire walls.

Currently, thirty-nine nonbank subsidiaries of bank holding companies are authorized to engage in underwriting and dealing activities that are not authorized for a member bank. Fourteen of these so-called section 20 subsidiaries have authority to underwrite and deal in commercial paper, municipal revenue bonds, mortgage-backed securities, and consumer receivable related securities.

Twenty-two section 20 subsidiaries have authority to underwrite and deal in all debt and equity securities, and three may underwrite and deal in all debt securities. Over the past nine years, the Board has had substantial experience in supervising the activities and operations of those companies. In the Board's experience, the section 20 subsidiaries have operated in a safe and sound manner without adverse effects on their affiliated banks or the public, and have provided additional competition in the securities markets."

Opposition Point One

We take issue with the statement that "the section 20 subsidiaries have operated in a safe and sound manner without adverse effects on their affiliated banks or the public, and have provided additional competition in the securities markets." We agree that the Board has gained substantial experience over the past nine years in supervising the activities and operations of section 20 subsidiaries. There is, however, ample recent evidence suggesting that financial market imperfections will impair the ability of the Section 20 subsidiaries to continue to operate in a safe and sound manner without adverse effects on their affiliated banks or the public. We refer the Board to the following incidents:

1. In the most serious indication to date that securities market problems have significantly damaged the public, the National Association of Security Dealers was found by the U.S. Securities and Exchange Commission to be "failing to police wrongdoing the NASDAQ Stock market, the second largest stock market in the world." The Washington Post (August 8, 1996. Page A1.) We note that "twenty-two section 20 subsidiaries have authority to underwrite and deal in all debt and equity securities."

2. According to the Washington Post (August 10, 1996. Page D2), a Massachusetts jury "convicted a former partner of Lazard Freres & Co. on 58 of 61 counts of fraud and corruption in connection with his work on municipal bond issues for the District government, the U.S. Postal Service and other clients." We note that "fourteen of these so-called section 20 subsidiaries have authority to underwrite and deal in municipal revenue bonds." We also note that significant explorations concerning fraud and corruption in the municipal bond markets are ongoing.

3. According to the Washington Post (August 10, 1996. Page A1), the Securities and Exchange Commission "filed a civil securities complaint against Bennett Funding Group, Inc. of Syracuse, N.Y. alleging that the company was a 'massive, ongoing Ponzi scheme,' perhaps the largest such scheme in U.S. history, with liabilities exceeding $1 billion."

4. According to the Washington Post (August 20, 1996. Page C2.), one financial institution granted a Section 20 exemption, Banker's Trust, experienced severe problems in the derivatives market. Clients, such as Gibson Greetings and Proctor & Gamble, claim the company misled them about the value of derivative investments.

5. According to the Washington Post (August 22, 1996. Page D8), another financial institution granted a Section 20 exemption, Citicorp, was fined $25,000 and ordered to surrender $300,000 by the National Association of Security Dealers for failing to ensure that 19 brokers completed computer-based training under NASD continuing education requirements.

6. According to the Washington Post (August 28, 1996. Page D1), several securities brokers were suspended because they hired others to impersonate them and take the main securities licensing examination, the Series 7 test.

This is a cursory sample of recent newspaper articles concerning securities market malfeasance drawn from one newspaper (The Washington Post) in one month (August 1996.) An extensive review would reveal more incidents. While U.S. security markets are broadly well functioning, these irregularities call into question the appropriateness of increasing, at this time, the amount of revenue that a section 20 subsidiary may derive from underwriting and dealing in securities.

Opposition Point Two

In an earlier letter to the Board, we protested the approval of a merger application submitted by Morgan Guaranty Trust, the beneficiary of a Section 20 exemption. The Board approved the merger on April 29, 1996. In that protest, we suggested Section 20 exemptions require Board staff to more broadly analyze activities of banking organizations granted Section 20 exemptions in meeting the credit needs of the community. We feel this includes reviewing the social and community impact of the securities activities of Section 20 subsidiaries. Recent advancements in information technology make this a reasonable suggestion. The creation of an investment test under new Community Reinvestment Act guidelines suggests that the Board agrees this can be done efficiently. Our research indicates that tools to conduct this type of "social and financial return analysis" can be readily developed. (See, for example, the Creative Investment Research "Fully Adjusted Return" Trademark applications pending methodology.)

In our earlier protest, we stated our belief that the grant of a section 20 exemption does not relieve the Board from an obligation to review and uncover any discriminatory business lending practices on the part of these firms.

This includes inspecting the gender and ethnic makeup of firms using the following services provided by section 20 subsidiaries:

a. Municipal Revenue Bonds/Securities

b. Mortgage related securities

c. Commercial Paper

d. Consumer - receivable related securities ("CRR's")

Activities in at least one of the above functional areas have been defined by the Federal Reserve Board (in An Order Approving Application to Engage in Commercial Paper Placement to a Limited Extent (Federal Reserve Bulletin, Feb. 1987, p. 148)) as "so functionally and operationally similar to the role of a bank that arranges a loan participation or syndication that banking organizations are particularly well suited to perform the commercial paper placement function."

In our view, Section 20 subsidiaries should be required to provide all credit services in a nondiscriminatory manner. Further, it is our belief that the tenor of the times require measures to compel Section 20 subsidiaries to provide credit in this manner.

The Federal Reserve noted, in a 1989 study, (in Changes in Family Finances from 1983 to 1989: Evidence from the Survey of Consumer Finances (Federal Reserve Bulletin, Jan. 1992, p. 1)) a widening income gap. That study indicated: "The small rise in the median values of income and net worth and the simultaneous substantial rise in the mean values indicate that the distributions of income and net worth became more concentrated between 1983 and 1989."

It is our belief that current tensions in certain parts of the country are a result of, in part, this widening income gap. We feel the increased concentration of wealth has contributed to and encouraged the development of, in certain individuals and groups, a "bunker," or militia mentality that has a negative impact on the country, including its capital markets. Recent events in Oklahoma City and at the 1996 Atlanta Olympic Games provide additional evidence concerning this observation

Certain organizations, like Section 20 subsidiaries, have been the beneficiaries of an unprecedented increase in financial market activity. Section 20 subsidiaries must be encouraged to apply their skills to deliver main line services to all, prudently but in a nondiscriminatory manner. Applying a "CRA-like" standard to the activities of these Section 20 subsidiaries, we believe, will help even the distribution of income and wealth, and contribute to domestic political and economic stability.

Docket No. R-0701

Review of Restrictions on Director and Employee Interlocks, Cross-Marketing Activities and the Purchase and Sale of Financial Assets.

We oppose this proposal. According to the July 31, 1996 Press Release:

"The Board is providing a second opportunity for public comment on proposed revisions to three of the prudential limitations established in its decisions under the Bank Holding Company Act and section 20 of the Glass-Steagall Act permitting a nonbank subsidiary of a bank holding company to underwrite and deal in securities. The Board is proposing to ease or eliminate the following restrictions on these so-called section 20 subsidiaries: the prohibition on director, officer and employee interlocks between a section 20 subsidiary and its affiliated banks or thrifts (the interlocks restriction); the restriction on a bank or thrift acting as agent for, or engaging in marketing activities on behalf of, an affiliated section 20 subsidiary (the cross-marketing restriction); and the restriction on the purchase and sale of financial assets between a section 20 subsidiary and its affiliated bank or thrift (the financial assets restriction)."

We refer the Board to Opposition Point One above as the main reason for our concern.

In addition, we believe the cross-marketing provisions of this proposal provide significant risks to the public, We refer the Board to a recent study by the Office of the Comptroller of the Currency, U.S. Treasury Department, "Mutual Fund Shareholders: Characteristics, Investor Knowledge, and Sources of Information" by Gordon Alexander, Jonathan Jones and Peter Nigro. The study reported that:

"..respondents earning less than $75,000 are significantly less likely to know that money market mutual funds are not insured. Panel B of Table 34 shows that roughly one quarter (27.5%) of those who thought that money market mutual funds are insured believe that these funds are insured by the FDIC. There are no significant differences in beliefs by age."

Cross marketing activities of Section 20 subsidiaries are likely to include the sale of money market mutual funds.

It is our belief that, unless the Federal Reserve Board is designated a "Super-regulator," with broad responsibility for overseeing the activities of banks, thrifts, pension funds, insurance companies, mutual fund companies, brokerage firms and investment banks, the approval of this proposal will result in significant public harm. We note our belief that recent advancements in financial and computer technology require the creation of such a "Super-regulator."