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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

March 26, 1964.

The Honorable Oren Harris, Chairman,
Committee on Interstate and Foreign Commerce,
House of Representatives,
Washington, D. C. 20515

Dear Mr. Chairman:

This is in response to your request for the Board's views on H. R. 8499, a bill to provide for the regulation of collective investment funds maintained by banks.

Prior to the repeal of section 11(k) of the Federal Reserve Act on September 28, 1962, the Board of Governors exercised authority with respect to trust powers of national banks. During the period of the Board's jurisdiction, section 17 of its Regulation F confined participation in common trust funds to situations where the bank was acting as a trustee, executor, administrator or guardian for "true fiduciary purposes." While the Board offers no opinion at this time as to the wisdom of enlarging the scope of common trust funds to serve certain investment purposes, it firmly believes that, if the concept is so broadened, any fund whose operations would involve the public offering of "securities" within the purview of the Federal securities laws, in their present form, should be subject to those laws and to the jurisdiction of the Securities and Exchange Commission thereunder.

An apparent purpose of H. R. 8499 is to provide investors with information upon which intelligent investment decisions can be made. For the following reasons the Board believes that the function of investor protection can best be effected by a uniform statutory and regulatory plan administered by a single Governmental agency--the Securities and Exchange Commission--as to all investments of a similar nature:

(a) To facilitate intelligent investment decisions, the information presented to investors should be readily comparable for all investments of a similar nature. The best means of assuring availability

of comparable information is for all investment media of a similar nature to be subject to the same laws and regulations, enforced by the same agency. Passage of H. R. 8499 would, to the contrary, result in the following:

> (1) The law itself would not require the same information to be presented to investors in banks' collective investment funds as is required for collective investment funds subject to the Securities Act of 1933 and the Investment Company Act of 1940.
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> (2) Two separate agencies would be authorized to issue regulations controlling the presentation of information to investors--the Comptroller of the Currency for collective investment funds of banks; the SEC for all other collective investment funds.
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> (3) Four agencies would exercise enforcement powers affecting investor protection for similar investments. As to collective investment funds subject to Federal securities laws, the SEC would have enforcement powers; as to the collective investment funds of banks, however, enforcement responsibility would be divided among the three Federal bank supervisory agencies. Diffusion of enforcement power is as objectionable in this area as division of regulatory power, for divergent interpretations and requirements could result in divergent presentations of information to the public. This not only would make comparison more difficult but also might result in investors reaching invalid conclusions.

It might also be noted that, incidental to such diffusion of regulatory and enforcement powers, a substantial increase in the aggregate cost of administration would seem to be inevitable.

(b) There is already existing an agency, the SEC, that is expert in the function of investor protection. It seems clear to the Board that the existing competence of the SEC should be utilized to benefit investors in banks' collective investment funds to the same extent as in the case of comparable investment media.

The Board accordingly recommends against enactment of H. R. 8499.

Sincerely yours,

Wm. McC. Martin, Jr.