

FEDERAL RESERVE BANK OF SAN FRANCISCO
101 MARKET STREET, SAN FRANCISCO, CALIFORNIA

January 27, 2004

**BANKING SUPERVISION AND REGULATION:
BANKS PROVIDING FINANCIAL SUPPORT
TO FUNDS ADVISED BY THE BANKING
ORGANIZATION**

To State Member Banks, Bank
Holding Companies, U.S. Branches
and Agencies of Foreign Banks,
and Others Concerned,
in the Twelfth Federal Reserve District

**Interagency Policy on Banks/Thriffs Providing Financial Support to Funds Advised by the
Banking Organization (SR 04-1)**

The Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, and Office of Thrift Supervision (the agencies) have issued the attached [Interagency Policy on Banks/Thriffs Providing Financial Support to Funds Advised by the Banking Organization or its Affiliates](#). This interagency policy statement sets forth the collective views of the agencies concerning the safety and soundness implications of a bank providing financial support to investment funds advised by the bank or its affiliates (i.e., affiliated investment fund).

The three core principles contained in the interagency policy statement emphasize that a bank should **not**:

- inappropriately place its resources and reputation at risk for the benefit of affiliated investment funds' investors and creditors;
- violate the limits and requirements contained in sections 23A and 23B of the Federal Reserve Act and Regulation W, other applicable legal requirements, or any special supervisory condition imposed by the agencies; or
- create an expectation that the bank will prop up the advised fund(s).

In addition, bank affiliated investment advisers are encouraged to establish alternate sources of financial support to avoid seeking support from affiliated banks. Finally, bank management is expected to notify and consult with its appropriate federal banking agency prior to (or immediately after, in the event of an emergency) providing material financial support to an affiliated investment fund.¹

The guidance contained in the interagency policy statement is consistent with the Board's existing guidance issued in 1994 through SR letters 94-53, *Investment Adviser Activities*, and 94-54, Contributions by Banking Organizations to Mutual Funds and Common Investment Funds. With the issuance of this interagency policy statement, SR letter 94-54 is rescinded. However, the sound practices for management and oversight of investment adviser activities that are recommended in SR letter 94-53 remain valid.

As with certain other supervisory guidance issued prior to passage of the Gramm-Leach-Bliley Act (GLBA), examiners are reminded of the necessary modifications in the implementation of that guidance in the context of functional regulation. Under GLBA the SEC, as the functional regulator of the investment advisory activities of registered investment advisors, has primary rulemaking and supervisory responsibility for those advisers. Accordingly, the guidance advanced in SR letter 94-53 as it pertains to the examination of investment advisers to mutual funds should now be viewed principally as guidance applicable to the parent bank or bank holding company in its oversight and control of functionally regulated entities.² All other advisory activities, such as trust departments operating collective investment funds, remain subject to the guidance contained in SR letter 94-53 as well as the new interagency guidance on providing financial support to funds advised by banking organizations.

Additional Information

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco's Internet site, at <http://www.frbsf.org/banking/letters>. Paper copies of the SR 04-1 are available from our Corporate Services Department. To request copies to be sent by mail, please call (415) 974-2060.

For additional information about the interagency policy, please contact our Banking Supervision and Regulation Department at (415) 974-2225.

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Attachment: SR 04-1

¹ The deferral or waiver of fees is *not* deemed to be material financial support for this purpose.

² Federal Reserve examiners no longer examine a registered investment adviser that solely provides advice to a mutual fund subject to SEC supervision, unless GLBA criteria are met (see [SR letter 00-13](#) for additional details).