

above is indexed to account for changes in interest rates since 1989. The Board has concluded that distortion of the revenue limit from interest rate fluctuations has been addressed by today's increase in the revenue limit and by the recent clarification of the revenue limit, which stated that interest earned on most investment-grade debt securities is treated as eligible income.

VI. Section 32 of the Glass-Steagall Act

Also in conjunction with today's order, the Board intends to interpret section 32 of the Glass-Steagall Act generally to prohibit interlocks between a bank and any company that derives more than 25 percent of its total revenue from underwriting and dealing in bank-ineligible securities. Section 32 prohibits personnel interlocks between a member bank and any company "primarily engaged" in underwriting and dealing in securities.⁴² Since 1987, the Board has interpreted "engaged principally" under section 20 and "primarily engaged" under section 32 consistently.⁴³ The Board and the courts have noted that section 20 should be interpreted at least as strictly as section 32 because "the dangers resulting from affiliation are arguably greater than those resulting only from personnel interlocks."⁴⁴

The Board has not, however, measured compliance with section 32 and section 20 in the same manner, relying on a more qualitative analysis for purposes of section 32. This difference is largely attributable to the fact, as noted above, that the Board does not gather detailed revenue information from securities companies other than section 20 subsidiaries. Furthermore, while the Board must continuously monitor compliance with section 20, and is thus in need of a bright-line test, inquiries under section 32 are infrequent.

Thus, in 1958, the Board established a nine-part guideline for determining compliance with section 32 that included "the dollar volume of business of the kinds described in section 32 engaged in by the firm or organization" and "the percentage ratio of such dollar volume to the dollar volume of the firm's total business." However, the Board did not establish a revenue or

dollar volume limit. A subsequent staff letter noted that "the Board generally has determined that a securities firm, which [sic] receives 10 percent of its gross income from section 32 business, is 'primarily engaged' within the meaning of [section 32]," and the Board in its 1987 Order noted that the Board had developed a "general guideline" to that effect. The Board has never, however, imposed a specific limitation in order to enforce compliance with section 32, and has found firms deriving more than 10 percent of their revenue from underwriting and dealing not to be primarily engaged. Nor has the Board ever reviewed the appropriateness of its 10 percent guideline since its apparent adoption in the 1950s, despite significant developments in the securities markets since that time.

In light of those developments and the Board's action on the section 20 revenue limit, the Board will generally find a securities firm to be primarily engaged in underwriting and dealing for purposes of section 32 when more than 25 percent of its total revenue derives from underwriting and dealing in bank-ineligible securities.

By order of the Board of Governors of the Federal Reserve System, December 20, 1996.
William W. Wiles,
Secretary of the Board.

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Formations of, Acquisitions by, and Mergers of Bank Holding Companies

The companies listed in this notice have applied to the Board for approval, pursuant to the Bank Holding Company Act of 1956 (12 U.S.C. 1841 *et seq.*) (BHC Act), Regulation Y (12 CFR Part 225), and all other applicable statutes and regulations to become a bank holding company and/or to acquire the assets or the ownership of, control of, or the power to vote shares of a bank or bank holding company and all of the banks and nonbanking companies owned by the bank holding company, including the companies listed below.

The applications listed below, as well as other related filings required by the Board, are available for immediate inspection at the Federal Reserve Bank indicated. Once the application has been accepted for processing, it will also be available for inspection at the offices of the Board of Governors. Interested persons may express their views in writing on the standards enumerated in the BHC Act (12 U.S.C. 1842(c)). If the proposal also involves the acquisition of a nonbanking company, the review also includes whether the acquisition of the

nonbanking company complies with the standards in section 4 of the BHC Act, including whether the acquisition of the nonbanking company can "reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices" (12 U.S.C. 1843). Any request for a hearing must be accompanied by a statement of the reasons a written presentation would not suffice in lieu of a hearing, identifying specifically any questions of fact that are in dispute, summarizing the evidence that would be presented at a hearing, and indicating how the party commenting would be aggrieved by approval of the proposal. Unless otherwise noted, nonbanking activities will be conducted throughout the United States.

Unless otherwise noted, comments regarding each of these applications must be received at the Reserve Bank indicated or the offices of the Board of Governors not later than January 22, 1997.

A. Federal Reserve Bank of Cleveland (R. Chris Moore, Senior Vice President) 1455 East Sixth Street, Cleveland, Ohio 44101:

1. *FJSB Bancshares, Inc.*, Fort Jennings, Ohio; to become a bank holding company by acquiring 100 percent of the voting shares of The Fort Jennings State Bank, Fort Jennings, Ohio.

B. Federal Reserve Bank of St. Louis (Randall C. Sumner, Vice President) 411 Locust Street, St. Louis, Missouri 63166:

1. *Waterfield Bank Corp.*, Indianapolis, Indiana; to become a bank holding company by acquiring 100 percent of the voting shares of First National Bank of Mitchell, Mitchell, Indiana.

Board of Governors of the Federal Reserve System, December 23, 1996.

Jennifer J. Johnson,

Deputy Secretary of the Board.

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Formations of, Acquisitions by, and Mergers of Bank Holding Companies

The companies listed in this notice have applied to the Board for approval, pursuant to the Bank Holding Company Act of 1956 (12 U.S.C. 1841 *et seq.*) (BHC Act), Regulation Y (12 CFR Part 225), and all other applicable statutes and regulations to become a bank holding company and/or to acquire the

⁴² 12 U.S.C. 78.

⁴³ *Bankers Trust* order at 142. The Board relied on the Supreme Court's interpretation of section 32 in *Agnew* in determining that "engaged principally" denotes substantial activity as opposed to the largest activity. However, the *Agnew* Court did not translate its interpretation of "primarily engaged" into a limitation on revenue or any other test of business activity.

⁴⁴ *Citicorp* at 67.