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Re: SECURITIES LAW UPDATE FOR BANK TRUST DEPARTMENTS

**The House Passes the Financial Services Regulatory Relief Act of 2006
SEC's Controversial Regulation B to be suspended as a Result**

SEC Rule 22c-2 Finalized – Compliance Dates Extended

Dear Clients and Other Friends:

Financial Services Regulatory Relief Act of 2006 – SEC Reg. B to be Suspended

Banking industry protests concerning the Securities and Exchange Commission's interpretation of Gramm-Leach-Bliley Act requirements for bank securities-related activities were rewarded on September 27 as the U.S. House of Representatives voted 417 – 0 to pass the Financial Services Regulatory Relief Act of 2006 (S. 2856, sponsored by Sen. Crapo of Idaho). The Senate earlier passed a similar version of this bill by unanimous consent on May 25, 2006. With the bill having now cleared both houses of Congress, Senator Crapo has said the House version will be presented to the Senate for final passage. The President is expected to sign the final version.

The overwhelming support for this bill indicates Congress' unanimous agreement with banking regulators and advocates that the Securities and Exchange Commission over-reached in issuing Regulation B (and, earlier, the so-called "Interim Final Rules"). The timing of this bill is significant as the SEC's ill-conceived Regulation B was set to become effective on September 30, 2006.

Senator Crapo issued a press release celebrating the House's action (posted at: http://crapo.senate.gov/media/newsreleases/release_full.cfm?id=263955). Senator Crapo summarized the bill's change to the Reg. B situation this way:

“[W]ith regard to the nearly-seven-year logjam over the SEC's proposed Regulation B (or Reg. B), Congress has decided to intervene. Joint rulemaking between the SEC and Federal Reserve Board, as required by this legislation, will give effect to the congressional intent underlying the Gramm-Leach-Bliley Act. Specifically, the

legislation is intended to ensure that regulators do not create a new and burdensome regulatory maze of requirements that would disrupt or interfere with the business practices of banks and thrifts that offer traditional bank products and services to their customers. The creation of requirements like those proposed in Reg B would ultimately force banks and thrifts to stop offering their customers the very same products and services we were seeking to protect in Gramm-Leach-Bliley.”

The bill requires the SEC and the Federal Reserve Board to jointly adopt rules implementing the exceptions to the definition of broker under Section 201 of the Gramm-Leach-Bliley Act within 180 days of the bill’s enactment. Any current proposed or final rules under Reg. B that interpret these exceptions are suspended.

Other regulatory provisions included in the bill:

- Delay the effectiveness for five years of the authorization for the Federal Reserve to pay interest on reserves and increase the Fed.’s flexibility to establish reserve requirements.
- Enhance the authority for banks to make community development investments. This provision increases from 10% to 15% the amount of unimpaired capital and surplus that a national bank may invest, directly or indirectly, in investments designed to promote the public welfare.
- Make certain amendments relating to non-federally insured credit unions.
- Make certain amendments to the Fair Debt Collection Practices Act.

This bill will now be finalized in Congress and ultimately readied for President Bush’s signature. Upon enactment, look for active involvement by the Federal Reserve Bank in fulfilling its role of working with the SEC to develop sensible new rules regulating banks’ securities-related products and services.

SEC Finalizes Rule 22c-2 and Extends Compliance Dates

Also on September 27, the SEC issued Rule 22c-2 as a final rule. Rule 22c-2 addresses the mutual fund market timing scandals and, among other requirements, mandates that most mutual funds execute shareholder information agreements with intermediaries, including bank trust departments, that hold shares on behalf of investors. The good news for bank trust departments and other intermediaries is that the compliance date for adopting complying service agreements has been extended to April 16, 2007 (from October 16, 2006). The date by which mutual funds must be able to obtain shareholder identity and transaction information from intermediaries under those agreements has been extended to October 16, 2007.

According to the SEC, final Rule 22c-2 is intended to clarify the operation of the rule and reduce the number of intermediaries with which funds must negotiate shareholder information agreements. The final rule is designed, the SEC asserts, to reduce costs to funds (and fund shareholders) while still achieving the goals of the rule to address market timing issues.

September 29, 2006

Page 3

The effective date of the rule is generally December 4, 2006, though compliance dates are extended as noted above. For a copy of final Rule 22c-2 go to: <http://www.sec.gov/rules/final/2006/ic-27504.pdf>

We welcome your inquiries about these important securities law matters affecting bank trust departments.

Sincerely,

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