**Federal Reserve Bank of Boston**
**Meeting Minutes**

**To:**      Basel II ANPR Public File              **Date:** July 16, 2004

**From:**    Patrick deFontnouvelle and            **Subject:** Mellon Retail Asset
             Victoria Garrity                                   Management/ The Dreyfus
                                                                Corporation

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**Attendees:** Representatives from The Dreyfus Corporation: David Officer, Vice Chairman. Federal Reserve Bank of Boston representatives: Linda Barriga, Patrick deFontnouvelle, Victoria Garrity and Ricki Sears.

**Purpose:** To obtain information on competition in the asset management business in connection with a study to assess the competitive impact of the Basel II Operational Risk capital charge.

**Perspective:** The Dreyfus Corporation (Dreyfus) is a retail mutual fund company that is a subsidiary of Mellon Financial Corporation. Dreyfus has approximately $165 billion in assets under management in more than 200 mutual fund portfolios nationwide.

**Items Discussed:**

*(1)    Background on Dreyfus*

Dreyfus' business could be viewed as two business lines based on the type of client: consumers and institutional clients. The consumer market can be broken down into three distribution channels: direct, intermediary, and fund supermarket. Direct distribution occurs when a customer makes a Dreyfus mutual fund purchase directly (*e.g.* online from the Dreyfus website). Examples of other direct mutual fund companies include Fidelity and Vanguard. Distribution through an intermediary occurs when the purchase is recommended by and conducted through a third party, such as Merrill Lynch. Examples of funds sold through intermediaries include American (Capital Group), MFS, and Putnam. The third distribution method occurs when a Dreyfus fund is purchased through a brokerage platform such as Charles Schwab. Registered Investment Advisors often invest for their clients through such a platform. The institutional products offered by Dreyfus differ from those offered by Mellon's Institutional Asset Management. Dreyfus offers cash management funds (*e.g.* a university is looking for a fund in which to place money overnight). Another part of the institutional segment is comprised of banks who invest their trust customers' funds in Dreyfus.

Proprietary mutual funds are a company's own mutual funds. Non-proprietary funds are funds offered by a company other than the distributor. Dreyfus is both a fund manufacturer and distributor. It is a manufacturer in that it creates and manages a group of its own funds. It is a distributor in that it directly sells these funds to consumers and sells them through intermediaries.

*(2)    Competition*

Key determinants of competition in the mutual fund market are performance, distribution, and reputation. Assets under management can be used to compare competitors.

From a geographic standpoint, every selling entity needs to be a local company in the retail mutual fund business. It is easier to distribute U.S. registered funds in other countries than vice versa. In the U.S. funds must be set up as separate corporations, which provides somewhat of a barrier. Foreign investors would more likely be interested in offshore funds than U.S. funds given U.S. tax laws.

The industry uses data from Strategic Insight to track competition. Strategic Insight provides information based on the following categories: non-proprietary, proprietary, direct, bank proprietary, institutional, and insurance. Cerulli provides information on wrap-fee accounts. Morningstar provides mutual fund rating data.

(3) *Capital and operational risk at retail asset management companies.*

Retail mutual fund companies are not subject to any regulatory capital requirements, but have varying levels of operational risk. One major factor that influences the level of operational risk is the degree to which a company's processes are automated. Automated processes have less operational risk than manual processes. Another factor is the type of investment instruments. Fixed income instruments have a higher degree of operational risk than equities as fixed income securities may not all have CUSIPs. In addition, as there are frequently new fixed income instruments, it is easier to make pricing errors.