

**FEDERAL RESERVE BANK
OF DALLAS**

November 6, 1933

**REGULATION R
RELATIONSHIPS WITH DEALERS IN SECURITIES**

To the Member Bank Addressed:

For your information and guidance, I am enclosing a copy of the Federal Reserve Board's Regulation R, Series of 1933, which relates to relationships with dealers in securities under Section 32 of the Banking Act of 1933.

If the bank addressed, or any officer or director thereof, has entered into, or desires to enter into, the relationships with dealers in securities, as referred to in Regulation R, application should be filed at once for a permit from the Federal Reserve Board covering such relationships.

Your attention is called to the fact that existing permits heretofore issued by the Board covering interlocking directorates under the provisions of the Clayton Act (as referred to in Regulation L) do not apply to any of the relationships referred to in Regulation R, and separate permits for the latter must be promptly obtained.

Forms for use in applying for permits may be procured from this office upon request.

Yours very truly,

A handwritten signature in cursive script, reading "C. H. Walsh", with a long horizontal flourish extending to the left.

Federal Reserve Agent.

Enclosure

FEDERAL RESERVE BOARD

**RELATIONSHIPS WITH DEALERS
IN SECURITIES**



REGULATION R

Effective November 1, 1933

RELATIONSHIPS WITH DEALERS IN SECURITIES

Under Section 32 of Banking Act of 1933

SECTION I. STATUTORY PROVISIONS

Section 32 of the Banking Act of 1933 provides as follows:

"Sec. 32. From and after January 1, 1934, no officer or director of any member bank shall be an officer, director, or manager of any corporation, partnership, or unincorporated association engaged primarily in the business of purchasing, selling, or negotiating securities, and no member bank shall perform the functions of a correspondent bank on behalf of any such individual, partnership, corporation, or unincorporated association and no such individual, partnership, corporation, or unincorporated association shall perform the functions of a correspondent for any member bank or hold on deposit any funds on behalf of any member bank, unless in any such case there is a permit therefor issued by the Federal Reserve Board; and the Board is authorized to issue such permit if in its judgment it is not incompatible with the public interest, and to revoke any such permit whenever it finds after reasonable notice and opportunity to be heard, that the public interest requires such revocation."

SECTION II. DEFINITIONS

Within the meaning of this regulation, the term—

"Member bank" shall include any national bank, State bank, savings bank, trust company, Morris Plan bank, mutual savings bank, or other banking institution which is a member of the Federal Reserve System.

"Securities" shall include stocks, bonds, debentures and other similar obligations.

"Dealer in securities" shall include any corporation, partnership, unincorporated association, or individual engaged¹ primarily in the business of purchasing, selling or negotiating securities.

"Manager" shall include any person who manages, controls, or directs the business of a dealer in securities, or participates in such management or control, either at the main office or at any branch, agency, or other office of such dealer, and shall include any general partner in a partnership which is a dealer in securities; *but shall not include* a partner in such a partnership who has no voice in the management or control of its business and whose liability is limited to the amount of his contribution to the partnership.

"Correspondent bank" shall include any member bank which shall act as the medium or agent or in any similar capacity for, or shall be regularly associated with, a dealer in securities in connection with the purchasing, selling, underwriting, flotation, or negotiation of securities; *but shall not include* (1) a member bank which shall merely purchase or sell securities without recourse solely upon the order and for the account of its customers, and/or which shall merely purchase or sell investment securities for its

¹This definition does not include organizations which were formerly engaged in such business but which are not currently engaged in it; because the statute has reference only to the business presently transacted by the organization in question.

own account as authorized by applicable law, through such a dealer in securities, or (2) a member bank which shall merely accept deposits of funds, handle items for collection (with or without securities attached) or perform other ordinary banking functions for such dealer.

"Correspondent dealer" shall include any dealer in securities which shall perform any banking functions, including the holding on deposit of any funds, on behalf of any member bank, or which shall act as the medium or agent or in any similar capacity for a member bank in connection with the underwriting, flotation, or negotiating of securities, *but shall not include* a dealer who shall merely execute orders received from or through such member bank for the purchase or sale of securities.

SECTION III. PROHIBITIONS OF SECTION 32

From and after January 1, 1934, unless there is a permit therefor issued by the Federal Reserve Board—

(1) No officer or director of a member bank can legally serve at the same time as an officer, director or manager of any corporation, partnership or unincorporated association engaged primarily in the business of purchasing, selling, or negotiating securities.

(2) No member bank can legally perform the functions of a correspondent bank on behalf of a dealer in securities.

(3) No dealer in securities can legally perform the functions of a correspondent dealer for any member bank, or hold on deposit any funds on behalf of any member bank.

SECTION IV. PERMISSION OF THE FEDERAL RESERVE BOARD

(a) **In general.**—Section 32 of the Banking Act of 1933 authorizes the Federal Reserve Board to issue a permit covering any of the relationships which are prohibited by the provisions of that section, if in the judgment of the Federal Reserve Board it is not incompatible with the public interest.

(b) **When obtained.**—Inasmuch as this exception to the prohibitions of Section 32 applies only when "there is a permit therefor issued by the Federal Reserve Board", a permit should be obtained before the prohibited relationship is entered into, or before January 1, 1934, whichever is later.

(c) **Application for permission.**—

(1) *An officer or director of a member bank* wishing to obtain a permit from the Federal Reserve Board to serve as an officer, director or manager of a dealer in securities should—

(i) Make formal application on F. R. B. Form 99a.

(ii) Obtain from each member bank a statement on F. R. B. Form 99b.

(iii) Obtain from the dealer in securities a statement on F. R. B. Form 99c.

- (iv) Forward all of these papers to the Federal reserve agent of his district, who will attach his recommendation on F. R. B. Form 99d and forward them to the Federal Reserve Board.

If the applicant desires to serve as an officer, director, or manager of more than one dealer in securities, a separate application should be filed with respect to each such dealer in securities. If the applicant desires to serve only one dealer in securities, only one application is necessary even though the applicant desires to serve more than one member bank.

(2) *A member bank* wishing to obtain a permit from the Federal Reserve Board to act as correspondent bank for a dealer in securities should—

- (i) Make formal application on F. R. B. Form 99e.
- (ii) Submit a statement on F. R. B. Form 99b.
- (iii) Obtain from the dealer in securities a statement on F. R. B. Form 99c.
- (iv) Forward all of these papers to the Federal reserve agent of its district who will attach his recommendation on F. R. B. Form 99d and forward them to the Federal Reserve Board.

If the applicant member bank desires to act as correspondent bank for more than one dealer in securities, a separate application should be filed by the member bank with respect to each such dealer in securities.

(3) *A dealer in securities* wishing to obtain from the Federal Reserve Board a permit to perform the functions of a correspondent dealer for a member bank should—

- (i) Make formal application on F. R. B. Form 99f, if incorporated, or on F. R. B. Form 99g, if unincorporated.
- (ii) Submit a statement on F. R. B. Form 99c.
- (iii) Obtain from the member bank a statement on F. R. B. Form 99b.
- (iv) Forward all of these papers to the Federal reserve agent of its district, who will attach his recommendation on F. R. B. Form 99d and forward them to the Federal Reserve Board.

If the applicant dealer in securities desires to act as correspondent dealer for more than one member bank, a separate application should be filed, covering each such member bank.

(d) **Papers to be filed in duplicate.**—All papers filed with the Federal reserve agent pursuant to this subsection should be filed *in duplicate*.

The forms referred to in this subsection are made a part of this regulation.

(e) **Compatibility with the public interest.**—In determining whether the issuance of such a permit will be compatible with the public interest, the Federal Reserve Board will consider—

(1) Whether the proposed relationship may tend to result in the undue use of bank credit in connection with the purchasing, selling, underwriting, flotation or negotiation of securities.

(2) Whether the proposed relationship will have any undesirable effect upon the member bank's financial condition, its credit or investment policies, or its policies in dealing with its other customers.

(3) Any other facts having a bearing upon the effect which the issuance of the permit may have upon the public interest.

(f) **Burden is on applicant.**—In view of the fact that Section 32 of the Banking Act of 1933 forbids relationships of certain kinds except in cases where the Federal Reserve Board finds the specific relationships not incompatible with the public interest and grants a permit therefor, the burden must rest upon each applicant for such a permit to show to the satisfaction of the Board that it would not be incompatible with the public interest to permit the relationship covered by the application.

(g) **Approval or disapproval.**—As soon as an application is acted upon by the Board, the applicant will be advised of the action taken.

If the Board approves the application, a formal permit will be issued to the applicant.

(h) **Hearing.**—If the Board is not satisfied that it is compatible with the public interest to grant such permit, the Board will so notify the applicant and will afford him or it every opportunity to present any additional facts or arguments bearing on the subject before making any final decision in the case.

(i) **Continuing effect of permits.**—A permit once granted continues in force until revoked, and need not be renewed, unless otherwise stated therein.

(j) **Revocation.**—All permits, however, are subject to revocation whenever the Federal Reserve Board, after giving reasonable notice to the holder and affording him or it an opportunity to be heard, finds that the public interest requires their revocation.