FEDERAL RESERVE BANK OF DALLAS
DALLAS, TEXAS

February 1, 1961

REPRINTS OF REGULATIONS H, N, P, AND Y

To All Banks and Others Concerned
in the Eleventh Federal Reserve District:

Enclosed are copies of Regulations H, N, P, and Y, issued by the Board of Governors of the Federal Reserve System. The Regulations have been reprinted to incorporate outstanding amendments and to conform with the style of the Code of the Federal Regulations.

Member banks are requested to remove the old copies of the Regulations and amendments from their ring binders containing the Regulations of the Board of Governors and insert the enclosed copies in lieu thereof.

Yours very truly,

Watrous H. Irons
President

BOARD OF GOVERNORS

of the

FEDERAL RESERVE SYSTEM

MEMBERSHIP OF STATE BANKING INSTITUTIONS IN THE FEDERAL RESERVE SYSTEM

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REGULATION H

(12 CFR 208)

As amended, effective August 21, 1959

Print of November 1960

INQUIRIES REGARDING THIS REGULATION

Any inquiry relating to this regulation should be addressed to the Federal Reserve Bank of the district in which the inquiry arises.

CONTENTS

REGULATION H

(12 CFR 208)

As amended, effective August 21, 1959

MEMBERSHIP OF STATE BANKING INSTITUTIONS IN THE FEDERAL RESERVE SYSTEM*

AUTHORITY FOR REGULATION

This regulation is based upon and issued pursuant to provisions of section 9 of the Federal Reserve Act and related provisions of law.

SECTION 208.1—DEFINITIONS

For the purposes of this part:

(*a*) The term **"State bank"** means any bank or trust company incorporated under a special or general law of a State or under a general law for the District of Columbia, any mutual savings bank (unless otherwise indicated), and any Morris Plan bank or other incorporated banking institution engaged in similar business.[1]

(*b*) The term **"mutual savings bank"** means a bank without capital stock transacting a savings bank business, the net earnings of which inure wholly to the benefit of its depositors after payment of obligations for any advances by its organizers, and in addition thereto includes any other banking institution the capital of which consists of weekly or other time deposits which are segregated from all other deposits and are regarded as capital stock for the purposes of taxation and the declaration of dividends.

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* The text corresponds to the Code of Federal Regulations, Title 12, Chapter II, Part 208; cited as 12 CFR 208.

[1] Under the provisions of section 19 of the Federal Reserve Act, national banks and banks organized under local laws, located in a dependency or insular possession or any part of the United States outside the States of the United States and the District of Columbia are not required to become members of the Federal Reserve System but may, with the consent of the Board, become members of the System. However, this Part 208 is applicable only to the admission of banks eligible for admission to membership under section 9 of the Federal Reserve Act and does not cover the admission of banks eligible under section 19 of the Act. Any bank desiring to be admitted to the System under the provisions of section 19 should communicate with the Federal Reserve Bank with which it desires to do business.

(*c*) The term **"Board"** means the Board of Governors of the Federal Reserve System.

(*d*) The term **"board of directors"** means the governing board of any institution performing the usual functions of a board of directors.

(*e*) The term **"Federal Reserve Bank stock"** includes the deposit which may be made with a Federal Reserve Bank in lieu of a subscription for stock by a mutual savings bank which is not permitted to purchase stock in a Federal Reserve Bank, unless otherwise indicated.

(*f*) The terms **"capital"** and **"capital stock"** means common stock, preferred stock and legally issued capital notes and debentures purchased by the Reconstruction Finance Corporation which may be considered capital and capital stock for purposes of membership in the Federal Reserve System under the provisions of section 9 of the Federal Reserve Act.

SECTION 208.2—ELIGIBILITY REQUIREMENTS

(*a*) Under the terms of section 9 of the Federal Reserve Act, as amended, to be eligible for admission to membership in the Federal Reserve System:

(1) A State bank, other than a mutual savings bank, must possess capital stock and surplus which, in the judgment of the Board, are adequate in relation to the character and condition of its assets and to its existing and prospective deposit liabilities and other corporate responsibilities: *Provided,* That no bank engaged in the business of receiving deposits other than trust funds, which does not possess capital stock and surplus in an amount equal to that which would be required for the establishment of a national banking association in the place in which it is located, shall be admitted to membership unless it is, or has been, approved for deposit insurance under the Federal Deposit Insurance Act.

(2) A mutual savings bank must possess surplus and undivided profits not less than the amount of capital required for the organization of a national bank in the place where it is situated.

(*b*) The minimum capital required for the organization of a national bank, referred to hereinbefore in connection with the capital

required for admission to membership in the Federal Reserve System, is as follows:

If located in a city or town with a population:	Minimum Capital
Not exceeding 6,000 inhabitants	$ 50,000
Exceeding 6,000 but not exceeding 50,000 inhabitants	100,000
Exceeding 50,000 inhabitants (except as stated below)	200,000
In an outlying district of a city with a population exceeding 50,000 inhabitants; provided State law permits organization of State banks in such location with a capital of $100,000 or less	100,000

With certain exceptions not here applicable, a national bank must have surplus equal to 20 per cent of its capital in order to commence business.

SECTION 208.3—INSURANCE OF DEPOSITS

Any State bank becoming a member of the Federal Reserve System which is engaged in the business of receiving deposits other than trust funds and which is not at the time an insured bank under the provisions of the Federal Deposit Insurance Act, will become an insured bank under the provisions of that Act on the date upon which it becomes a member of the Federal Reserve System.[2] In the case of an insured bank which is admitted to membership in the Federal Reserve System, the bank will continue to be an insured bank.

SECTION 208.4—APPLICATION FOR MEMBERSHIP

(*a*) **State bank, other than a mutual savings bank.**—A State bank, other than a mutual savings bank, applying for membership, shall make application on Form F.R. 83A to the Board for an amount of capital stock in the Federal Reserve Bank of its district equal to six per cent of the paid-up capital stock and surplus of the applying institution.

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[2] In the case of a State bank which is engaged in the business of receiving deposits other than trust funds and which at the time of its admission to membership in the Federal Reserve System is not an insured bank, the Board is required under the provisions of sections 4 and 6 of the Federal Deposit Insurance Act to issue a certificate to the Federal Deposit Insurance Corporation to the effect that the bank is a member of the Federal Reserve System and that consideration has been given to the financial history and condition of the bank, the adequacy of its capital structure, its future earnings prospects, the general character of its management, the convenience and needs of the community to be served by the bank, and whether or not its corporate powers are consistent with the purposes of the Federal Deposit Insurance Act.

(*b*) **Mutual savings banks.**—A mutual savings bank applying for membership shall make application on Form F.R. 83B to the Board for an amount of capital stock in the Federal Reserve Bank of its district equal to six-tenths of one per cent of its total deposit liabilities as shown by the most recent report of examination of such institution preceding its admission to membership, or, if such institution be not permitted by the laws under which it was organized to purchase stock in a Federal Reserve Bank, on Form F.R. 83C, for permission to deposit with the Federal Reserve Bank an amount equal to the amount which it would have been required to pay in on account of a subscription to capital stock.

(*c*) **Mutual savings bank which is not authorized to purchase stock of Federal Reserve Bank at time of admission.**—If a mutual savings bank be admitted to membership on the basis of a deposit of the required amount with the Federal Reserve Bank in lieu of payment upon capital stock because the laws under which such bank was organized do not at that time authorize it to purchase stock in the Federal Reserve Bank, it shall subscribe on Form F.R. 83D for the appropriate amount of stock in the Federal Reserve Bank whenever such laws are amended so as to authorize it to purchase stock in a Federal Reserve Bank.[3]

(*d*) **Execution and filing of application.**—Each application made under the provisions of this section and the exhibits referred to in the application blank shall be executed and filed, in duplicate with the Federal Reserve Bank of the district in which the applying bank is located.

SECTION 208.5—APPROVAL OF APPLICATION

(*a*) **Matters given special consideration by Board.**—In passing upon an application, the following matters will be given special consideration:

(1) The financial history and condition of the applying bank and the general character of its management;

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[3] The Federal Reserve Act provides that, if the laws under which any such savings bank was organized be not amended at the first session of the legislature following the admission of the savings bank to membership so as to authorize mutual savings banks to purchase Federal Reserve Bank stock, or if such laws be so amended and the bank fail within six months thereafter to purchase such stock, all of its rights and privileges as a member bank shall be forfeited and its membership in the Federal Reserve System shall be terminated in the manner prescribed in section 9 of the Federal Reserve Act.

(2) The adequacy of its capital structure in relation to the character and condition of its assets and to its existing and prospective deposit liabilities and other corporate responsibilities; and its future earnings prospects;

(3) The convenience and needs of the community to be served by the bank; and

(4) Whether its corporate powers are consistent with the purposes of the Federal Reserve Act.

(*b*) **Procedure for admission to membership after approval of application.**—If an applying bank conforms to all the requirements of the Federal Reserve Act and this part and is otherwise qualified for membership, its application will be approved subject to such conditions as may be prescribed pursuant to the provisions of the Federal Reserve Act. When the conditions prescribed have been accepted by the applying bank, it should pay to the Federal Reserve Bank of its district one-half of the amount of its subscription and, upon receipt of advice from the Federal Reserve Bank as to the required amount, one-half of one per cent of its paid-up subscription for each month from the period of the last dividend.[4] The remaining half of the bank's subscription shall be subject to call when deemed necessary by the Board. The bank's membership in the Federal Reserve System shall become effective on the date as of which a certificate of stock of the Federal Reserve Bank is issued to it pursuant to its application for membership or, in the case of a mutual savings bank which is not authorized to subscribe for stock, on the date as of which a certificate representing the acceptance of a deposit with the Federal Reserve Bank in place of a payment on account of a subscription to stock is issued to it pursuant to its application for membership.

SECTION 208.6—PRIVILEGES AND REQUIREMENTS OF MEMBERSHIP

Every State bank while a member of the Federal Reserve System—

(*a*) Shall retain its full charter and statutory rights subject to the provisions of the Federal Reserve Act and other Acts of Congress applicable to member State banks, to the regulations of the Board made pursuant to law, and to the conditions prescribed by the Board and agreed to by such bank prior to its admission;

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[4] In the case of a mutual savings bank which is not permitted by the laws under which it was organized to purchase stock in a Federal Reserve Bank, it shall deposit with the Federal Reserve Bank an amount equal to the amount which it would have been required to pay in on account of a subscription to capital stock.

(*b*) Shall enjoy all the privileges and observe all the requirements of the Federal Reserve Act and other Acts of Congress applicable to member State banks and of the regulations of the Board made pursuant to law which are applicable to member State banks;

(*c*) Shall comply at all times with any and all conditions of membership prescribed by the Board in connection with the admission of such bank to membership in the Federal Reserve System; and

(*d*) Shall not reduce its capital stock except with the prior consent of the Board.[5]

SECTION 208.7—CONDITIONS OF MEMBERSHIP

(*a*) Pursuant to the authority contained in the first paragraph of section 9 of the Federal Reserve Act, which authorizes the Board to permit applying State banks to become members of the Federal Reserve System "subject to the provisions of this Act and to such conditions as it may prescribe pursuant thereto," the Board, except as hereinafter stated, will prescribe the following conditions of membership for each State bank hereafter applying for admission to the Federal Reserve System, and, in addition, such other conditions as may be considered necessary or advisable in the particular case:

(1) Such bank at all times shall conduct its business and exercise its powers with due regard to the safety of its depositors, and, except with the permission of the Board of Governors of the Federal Reserve System, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership.[6]

(2) The net capital and surplus funds of such bank shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities.

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[5] This applies to capital stock of all classes and to capital notes and debentures legally issued and purchased by the Reconstruction Finance Corporation which, under the Federal Reserve Act, are considered as capital stock for purposes of membership.

[6] For many years, the Board prescribed, as standard conditions of membership, a condition which, in general, prohibited banks from engaging as a business in the sale of real estate loans to the public and certain conditions relating to the exercise of trust powers, including one which prohibited self-dealing in the investment of trust funds. The elimination of these conditions as standard conditions of membership does not reflect any change in the Board's position as to the undesirability of the practices formerly prohibited by such conditions; and attention is called to the fact that engaging as a business in the sale of real estate loans to the public or failing to conduct trust business in accordance with the applicable State laws and sound principles of trust administration may constitute unsafe or unsound practices and violate the condition set forth in this subparagraph.

(*b*) The acquisition by a member State bank of the assets of another institution through merger, consolidation, or purchase may result in a change in the general character of its business or in the scope of its corporate powers within the meaning of the condition set forth in paragraph (*a*)(1) of this section, and if at any time a bank subject to such condition anticipates making any such acquisition a detailed report setting forth all the facts in connection with the transaction shall be made promptly to the Federal Reserve Bank of the district in which such bank is located.

(*c*) If at any time, in the light of all the circumstances, the aggregate amount of a member State bank's net capital and surplus funds appears to be inadequate, the bank, within such period as shall be deemed by the Board to be reasonable for this purpose, shall increase the amount thereof to an amount which in the judgment of the Board shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities.

SECTION 208.8—ESTABLISHMENT OR MAINTENANCE OF BRANCHES

(*a*) **In general.**—Every state bank which is or hereafter becomes a member of the Federal Reserve System is subject to the provisions of section 9 of the Federal Reserve Act relating to the establishment and maintenance of branches [7] in the United States or in a dependency or insular possession thereof or in a foreign country. Under the provisions of section 9, member State banks establishing and operating branches in the United States beyond the corporate limits of the city, town, or village in which the parent bank is situated must conform to the same terms, conditions, limitations, and restrictions as are applicable to the establishment of branches by national banks under the provisions of section 5155 of the Revised Statutes of the United States relating to the establishment of branches in the United States, except that the approval of any such branches must be obtained from the Board rather than from the Comptroller of the Currency. The approval of the Board must likewise be obtained before any member State bank establishes any branch after July 15, 1952, within the corporate limits of the city, town, or village in which the parent bank is situated (except within the District of Columbia). Under the provisions of section 9, member State banks establishing and operating branches in

[7] Section 5155 of the Revised Statutes of the United States provides that: "(f) The term 'branch' as used in this section shall be held to include any branch bank, branch office, branch agency, additional office, or any branch place of business located in any State or territory of the United States or in the District of Columbia at which deposits are received, or checks paid, or money lent."

a dependency or insular possession of the United States or in a foreign country must conform to the terms, conditions, limitations, and restrictions contained in section 25 of the Federal Reserve Act relating to the establishment by national banks of branches in such places.

(*b*) **Branches in the United States.—**

(1) Before a member State bank establishes a branch (except within the District of Columbia), it must obtain the approval of the Board.

(2) Before any nonmember State bank having a branch or branches established after February 25, 1927, beyond the corporate limits of the city, town, or village in which the bank is situated is admitted to membership in the Federal Reserve System, it must obtain the approval of the Board for the retention of such branches.

(3) A member State bank located in a State which by statute law permits the maintenance of branches within county or greater limits may, with the approval of the Board, establish and operate, without regard to the capital requirements of section 5155 of the Revised Statutes, a seasonal agency in any resort community within the limits of the county in which the main office of such bank is located for the purpose of receiving and paying out deposits, issuing and cashing checks and drafts, and doing business incident thereto, if no bank is located and doing business in the place where the proposed agency is to be located; and any permit issued for the establishment of such an agency shall be revoked upon the opening of a State or national bank in the community where the agency is located.

(4) Except as stated in paragraph (*b*) (3) of this section, in order for a member State bank to establish a branch beyond the corporate limits of the city, town, or village in which it is situated, the aggregate capital stock of the member State bank and its branches shall at no time be less than the aggregate minimum capital stock required by law for the establishment of an equal number of national banking associations situated in the various places where such member State bank and its branches are situated.[8]

[8] The requirement of this paragraph is met if the aggregate capital stock of a member State bank having branches is not less than the total amount of capital stock which would be required for the establishment of one national bank in each of the places in which the head office and branches of the member State bank are located, irrespective of the number of offices which the bank may have in any such place. There are no additional capital requirements for additional branches within the city, town, or village in which the head office is located.

(5) A member State bank may not establish a branch beyond the corporate limits of the city, town, or village in which it is situated unless such establishment and operation are at the time authorized to State banks by the statute law of the State in question by language specifically granting such authority affirmatively and not merely by implication or recognition.

(6) Any member State bank which, on February 25, 1927, had established and was actually operating a branch or branches in conformity with the State law is permitted to retain and operate the same while remaining a member of the Federal Reserve System, regardless of the location of such branch or branches.

(7) The removal of a branch of a member State bank from one town to another town constitutes the establishment of a branch in such other town and, accordingly, requires the approval of the Board. The removal of a branch of a member State bank from one location in a town to another location in the same town will require the approval of the Board if the circumstances of the removal are such that the effect thereof is to constitute the establishment of a new branch as distinguished from the mere relocation of an existing branch in the immediate neighborhood without affecting the nature of its business or customers served.

(*c*) **Application for approval of branches in United States.**—Any member State bank desiring to establish a branch should submit a request for the approval by the Board of any such branch to the Federal Reserve Bank of the district in which the bank is located. Any nonmember State bank applying for membership and desiring to retain any branch established after February 25, 1927, beyond the corporate limits of the city, town, or village in which the bank is situated should submit a similar request. Any such request should be accompanied by advice as to the scope of the functions and the character of the business which are or will be performed by the branch and detailed information regarding the policy followed or proposed to be followed with reference to supervision of the branch by the head office; and the bank may be required in any case to furnish additional information which will be helpful to the Board in determining whether to approve such request.

(*d*) **Foreign branches.**—Before a member State bank establishes a branch in a foreign country, or dependency or insular possession of the United States, it must have a capital and surplus of $1,000,000 or more and obtain the approval of the Board.

(*e*) **Application for approval of foreign branches.**—Any mem-

ber State bank desiring to establish such a branch and any nonmember State bank applying for membership and desiring to retain any such branch established after February 25, 1927, should submit a request for the approval by the Board of any such branch to the Federal Reserve Bank of the district in which the bank is located. Any such request should be accompanied by advice as to the scope of the functions and the character of the business which are or will be performed by the branch and detailed information regarding the policy followed or proposed to be followed with reference to supervision of the branch by the head office; and the bank may be required in any case to furnish additional information which will be helpful to the Board in determining whether to approve such request.

SECTION 208.9—PUBLICATION OF REPORTS OF MEMBER BANKS AND THEIR AFFILIATES [9]

(*a*) **Reports of member banks.**—(1) Each report of condition made by a member State bank, which is required to be made to the Federal Reserve Bank of its district as of call dates fixed by the Board of Governors of the Federal Reserve System, shall be published by such member bank within twenty days from the date the call therefor is issued.

(2) The report shall be printed in a newspaper published in the place where the bank is located or, if there be no newspaper published in the place where the bank is located, then in a newspaper published in the same or in an adjoining county and in general circulation in the place where the bank is located. The term "newspaper", for the purpose of this part, means a publication with a general circulation published not less frequently than once a week, one of the primary functions of which is the dissemination of news of general interest.

(3) The copy of the report for the use of the printer for publication should be prepared on the form supplied or authorized for the purpose by the Federal Reserve Bank. The published information shall agree

[9] Under the provisions of section 9 of the Federal Reserve Act, reports of condition of member State banks which, under that section, must be made to the respective Federal Reserve Banks on call dates fixed by the Board of Governors of the Federal Reserve System "shall be published by the reporting banks in such manner and in accordance with such regulations as the said Board may prescribe".

Section 9 also provides that the reports of affiliates of a member State bank which are required by that section to be furnished to the respective Federal Reserve Banks "shall be published by the bank under the same conditions as govern its own condition reports". The term "affiliates", as used in this provision of section 9, under the express terms of that section, includes "holding company affiliates as well as other affiliates", but a member state bank is not required to furnish to a Federal Reserve Bank the report of an affiliated member bank.

in every respect with that shown on the face of the condition report rendered to the Federal Reserve Bank, except that any item for which no amount is reported may be omitted in the published statement. All signatures shall be the same in the published statement as in the original report submitted to the Federal Reserve Bank, but the signatures may be typewritten or otherwise copied on the report for publication.

(4) A copy of the printed report shall be submitted to the Federal Reserve Bank attached to the certificate on the form supplied or authorized for the purpose by the Federal Reserve Bank.

(*b*) **Reports of affiliates.**[10]—(1) Each report of an affiliate of a member State bank, including a holding company affiliate, shall be published at the same time and in the same newspaper as the affiliated bank's own condition report submitted to the Federal Reserve Bank, unless an extension of time for submission of the report of the affiliate has been granted under authority of the Board of Governors of the Federal Reserve System. When such extension of time has been granted, the report of the affiliate must be submitted and published before the expiration of such extended period in the same newspaper as the condition report of the bank was published.

(2) The copy of the report for the use of the printer for publication should be prepared on Form F.R. 220a. The published information shall agree in every respect with that shown on the face of the report of the affiliate furnished to the Federal Reserve Bank by the affiliated member bank, except that any item appearing under the caption "Financial relations with bank" against which the word "none" appears on the report furnished to the Federal Reserve Bank may be omitted in the published statement of the affiliate: *Provided,* That if the word "none" is shown against all of the items appearing under such caption in the report furnished to the Federal Reserve Bank the caption "Financial relations with bank" shall appear in the published statement followed by the word "none." All signatures shall be the same in the published statement as in the original report sub-

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[10] Section 21 of the Federal Reserve Act, among other things, provides as follows: "Whenever member banks are required to obtain reports from affiliates, or whenever affiliates of member banks are required to submit to examination, the Board of Governors of the Federal Reserve System or the Comptroller of the Currency, as the case may be, may waive such requirements with respect to any such report or examination of any affiliate if in the judgment of the said Board or Comptroller, respectively, such report or examination is not necessary to disclose fully the relations between such affiliate and such bank and the effect thereof upon the affairs of such bank." Therefore, of course, in any case where the Board of Governors waives the filing of a report of an affiliate of a member State bank, no publication of a report of such affiliate is required.

mitted to the Federal Reserve Bank, but the signatures may be typewritten or otherwise copied on the report for publication.

(3) A copy of the printed report shall be submitted to the Federal Reserve Bank attached to the certificate on Form F.R. 220a.

SECTION 208.10—VOLUNTARY WITHDRAWAL FROM FEDERAL RESERVE SYSTEM

(*a*) **General.**—Any state bank desiring to withdraw from membership in a Federal Reserve Bank may do so after six months' written notice has been filed with the Board;[11] and the Board, in its discretion, may waive such six months' notice in any individual case and may permit such bank to withdraw from membership in a Federal Reserve Bank, subject to such conditions as the Board may prescribe, prior to the expiration of six months from the date of the written notice of its intention to withdraw.

(*b*) **Notice of intention of withdrawal.**—(1) Any State bank desiring to withdraw from membership in a Federal Reserve Bank should signify its intention to do so, with the reasons therefor, in a letter addressed to the Board and mailed to the Federal Reserve Bank of which such bank is a member. Any such bank desiring to withdraw from membership prior to the expiration of six months from the date of written notice of its intention to withdraw should so state in the letter signifying its intention to withdraw and should state the reason for its desire to withdraw prior to the expiration of six months.

(2) Every notice of intention of a bank to withdraw from membership in the Federal Reserve System and every application for the waiver of such notice should be accompanied by a certified copy of a resolution duly adopted by the board of directors of such bank authorizing the withdrawal of such bank from membership in the Federal Reserve System and authorizing a certain officer or certain officers of such bank to file such notice or application, to surrender for cancellation the Federal Reserve Bank stock held by such bank, to receive and receipt for any moneys or other property due to such bank from the Federal Reserve Bank and to do such other things as may be necessary to effect the withdrawal of such bank from membership in the Federal Reserve System.

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[11] Under specific provisions of section 9 of the Federal Reserve Act, however, no Federal Reserve Bank shall, except upon express authority of the Board, cancel within the same calendar year more than twenty-five per cent of its capital stock for the purpose of effecting voluntary withdrawals during that year. All applications for voluntary withdrawals are required by the law to be dealt with in the order in which they are filed with the Board.

(3) Notice of intention to withdraw or application for waiver of six months' notice of intention to withdraw by any bank which is in the hands of a conservator or other State official acting in a capacity similar to that of a conservator should be accompanied by advice from the conservator or other such State official that he joins in such notice or application.

(*c*) **Time and method of effecting actual withdrawal.**—Upon the expiration of six months after notice of intention to withdraw or upon the waiving of such six months' notice by the Board, such bank may surrender its stock and its certificate of membership to the Federal Reserve Bank and request that same be canceled and that all amounts due to it from the Federal Reserve Bank be refunded.[12] Unless withdrawal is thus effected within eight months after notice of intention to withdraw is first given, or unless the bank requests and the Board grants an extension of time, such bank will be presumed to have abandoned its intention of withdrawing from membership and will not be permitted to withdraw without again giving six months' written notice or obtaining the waiver of such notice.

(*d*) **Withdrawal of notice.**—Any bank which has given notice of its intention to withdraw from membership in a Federal Reserve Bank may withdraw such notice at any time before its stock has been canceled and upon doing so may remain a member of the Federal Reserve System. The notice rescinding the former notice should be accompanied by a certified copy of an appropriate resolution duly adopted by the board of directors of the bank.

SECTION 208.11—BOARD FORMS

All forms referred to in this part and all such forms as they may be amended from time to time shall be a part of the regulations in this part.

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[12] A bank's withdrawal from membership in the Federal Reserve System is effective on the date on which the Federal Reserve Bank stock held by it is duly canceled. Until such stock has been canceled, such bank remains a member of the Federal Reserve System, is entitled to all the privileges of membership, and is required to comply with all provisions of law and all regulations of the Board pertaining to member banks and with all conditions of membership applicable to it. Upon the cancellation of such stock, all rights and privileges of such bank as a member bank shall terminate.

Upon the cancellation of such stock, and after due provision has been made for any indebtedness due or to become due to the Federal Reserve Bank, such bank shall be entitled to a refund of its cash paid subscription with interest at the rate of one-half of one per cent per month from the date of last dividend, the amount refunded in no event to exceed the book value of the stock at that time, and shall likewise be entitled to the repayment of deposits and of any other balance due from the Federal Reserve Bank.

BOARD OF GOVERNORS

of the

FEDERAL RESERVE SYSTEM

RELATIONS WITH FOREIGN BANKS AND BANKERS

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REGULATION N

(12 CFR 214)

As revised effective January 1, 1944

Print of October 1960

REGULATION N

(12 CFR 214)

Revised effective January 1, 1944

RELATIONS WITH FOREIGN BANKS AND BANKERS*

SECTION 214.1—SCOPE OF PART

Pursuant to the authority conferred upon it by section 14 of the Federal Reserve Act, as amended (40 Stat. 235, 48 Stat. 181; 12 U.S.C. 358, 348a), and by other provisions of law, the Board of Governors of the Federal Reserve System prescribes the following regulations governing relationships and transactions between Federal Reserve Banks and foreign banks or bankers or groups of foreign banks or bankers or a foreign State as defined in section 25(b) of the Federal Reserve Act (55 Stat. 131; 12 U.S.C. 632).

SECTION 214.2—INFORMATION TO BE FURNISHED TO THE BOARD

In order that the Board of Governors of the Federal Reserve System may perform its statutory duty of exercising special supervision over all relationships and transactions of any kind entered into by any Federal Reserve Bank with any foreign bank or banker or with any group of foreign banks or bankers or with any foreign State, each Federal Reserve Bank shall promptly submit to the Board of Governors of the Federal Reserve System in writing full information concerning all existing relationships and transactions of any kind heretofore entered into by such Federal Reserve Bank with any foreign bank or banker or with any group of foreign banks or bankers or with any foreign State and copies of all written agreements between it and any foreign bank or banker or any group of foreign banks or bankers or any foreign State which are now in force, unless copies have heretofore been furnished to the Board. Each Federal Reserve Bank shall also keep the Board of Governors of the Federal Reserve System promptly and fully advised of all transactions with any foreign bank or banker or with any group of foreign banks or bankers or with any foreign State, except transactions of a routine character.

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* The text corresponds to the Code of Federal Regulations, Part 212, Chapter II, Part 214 cited as 12 CFR 214.

SECTION 214.3—CONFERENCES AND NEGOTIATIONS WITH FOREIGN BANKS, BANKERS OR STATES

(*a*) Without first obtaining the permission of the Board of Governors of the Federal Reserve System, no officer or other representative of any Federal Reserve Bank shall conduct negotiations of any kind with the officers or representatives of any foreign bank or banker or any group of foreign banks or bankers of any foreign State, except communications in the ordinary course of business in connection with transactions pursuant to agreements previously approved by the Board of Governors of the Federal Reserve System. Any request for the Board's permission to conduct any such negotiations shall be submitted in writing and shall include a full statement of the occasion and objects of the proposed negotiations.

(*b*) The Board of Governors of the Federal Reserve System reserves the right, in its discretion, to be represented by such representatives as it may designate in any negotiations between any officer or other representative of any Federal Reserve Bank and any officers or representatives of any foreign bank or banker or any group of foreign banks or bankers or any foreign State; and the Board shall be given reasonable notice in advance of the time and place of any such negotiations; and may itself designate the time and place of any such negotiations.

(*c*) A full report of all such conferences or negotiations and all understandings or agreements arrived at or transactions agreed upon and all other material facts appertaining to such conferences or negotiations shall be filed with the Board of Governors of the Federal Reserve System in writing by a duly authorized officer of each Federal Reserve Bank which shall have participated in such conferences or negotiations, including copies of all correspondence appertaining thereto.

SECTION 214.4—AGREEMENTS WITH FOREIGN BANKS, BANKERS, OR STATES, AND PARTICIPATION IN FOREIGN ACCOUNTS

(*a*) No Federal Reserve Bank shall enter into any agreement, contract, or understanding with any foreign bank or banker or with any group of foreign banks or bankers or with any foreign State without first obtaining the permission of the Board of Governors of the Federal Reserve System.

(*b*) When any Federal Reserve Bank, with the approval of the Board of Governors of the Federal Reserve System, has opened an

account for any foreign bank or banker or group of foreign banks or bankers or for any foreign State, or has entered into any agreement, contract, or understanding with reference to opening or maintaining such an account, or with reference to any other matter or matters, any other Federal Reserve Bank may participate in such account, or in such agreement, contract, or understanding, and in operations and transactions performed therein or pursuant thereto, with the approval of the Board of Governors of the Federal Reserve System.

SECTION 214.5—AMENDMENTS

The Board of Governors of the Federal Reserve System reserves the right, in its discretion, to alter, amend or repeal these regulations and to prescribe such additional regulations, conditions, and limitations as it may deem desirable, respecting relationships and transactions of any kind entered into by any Federal Reserve Bank with any foreign bank or banker or with any group of foreign banks or bankers or with any foreign State.

BOARD OF GOVERNORS

of the

FEDERAL RESERVE SYSTEM

HOLDING COMPANY AFFILIATES— VOTING PERMITS

▼

REGULATION P

(12 CFR 216)

As amended, effective January 9, 1959

Print of November 1960

INQUIRIES REGARDING THIS REGULATION

Any inquiry relating to this regulation should be addressed to the Federal Reserve Bank of the district in which the inquiry arises.

CONTENTS

REGULATION P

(12 CFR 216)

As amended, effective January 9, 1959

HOLDING COMPANY AFFILIATES— VOTING PERMITS*

STATUTORY PROVISIONS

This regulation is based upon and issued pursuant to various provisions of section 5144 of the Revised Statutes of the United States and of the Federal Reserve Act, the most important of which, together with related provisions of law, are published in the Appendix hereto.

SECTION 216.1—DEFINITIONS

For the purposes of this part:

(a) **Holding company affiliate.**—The term "holding company affiliate" shall have the meaning given to it by section 2 (c) of the Banking Act of 1933 (48 Stat. 163; 49 Stat. 707; 12 U.S.C. 221a).[1]

(b) **Affiliate.**—The term "affiliate" shall have the meaning given to it by section 2 (b) of the Banking Act of 1933 (48 Stat. 162; 12 U.S.C. 221a).[2]

(c) **Subsidiary.**—The term "subsidiary" means any corporation, business trust, association, or other similar organization engaged in any kind of business whatsoever (including any member or nonmember bank):

(1) Of which any corporation, business trust, association, or other similar organization owns or controls, directly or indirectly, a majority of the shares of capital stock; or

(2) Of which any corporation, business trust, association, or other similar organization owns or controls, directly or indirectly, more than 50 per centum of the number of shares voted for the election of the directors, trustees, or other persons exercising similar functions at the preceding election; or

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* The text corresponds to the Code of Federal Regulations, Title 12, Chapter II, Part 216; cited as 12 CFR 216.

[1] An organization is not a holding company affiliate of a bank (national or State) unless the bank is a member of the Federal Reserve System.

[2] For the purposes of certain provisions of sections 9 and 23A of the Federal Reserve Act and section 5211 of the Revised Statutes of the United States (48 Stat. 165, 49 Stat. 717, 48 Stat. 191; 12 U.S.C. 334, 12 U.S.C. 371c, 12 U.S.C. 161), the term "affiliate" also includes any "holding company affiliate."

(3) Of which any corporation, business trust, association, or other similar organization controls in any manner the election of a majority of the directors, trustees, or other persons exercising similar functions; or

(4) Of which all or substantially all the capital stock is held by trustees for the benefit of the shareholders or members of any corporation, business trust, association, or other similar organization.

(d) **Affiliated.**—Any corporation, business trust, association, or other similar organization (including any member or nonmember bank) shall be deemed to be "affiliated" with another such organization:

(1) If either organization owns or controls, directly or indirectly, a majority of the shares or of the voting shares of the other or more than 50 per centum of the number of shares of the other voted for the election of directors, trustees, or other persons exercising similar functions at the preceding election; or

(2) If either controls in any manner the election of a majority of the other's directors, trustees, or other persons exercising similar functions; or

(3) If control of either is held, directly or indirectly, through stock ownership or in any other manner, by trustees for the benefit of the shareholders of the other; or

(4) If a majority of the directors, trustees, or other persons exercising similar functions of either have similar connections with the other.

(e) **Member bank.**—The term "member bank" means 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.

(f) **Nonmember bank.**—The term "nonmember bank" means any banking institution which is not a member of the Federal Reserve System.

(g) **General voting permit.**—The term "general voting permit" means any voting permit entitling a holding company affiliate to vote the stock which it owns or controls of a subsidiary member bank at all meetings of the shareholders of such bank and for all purposes.

(h) **Limited voting permit.**—The term "limited voting permit" means any voting permit authorizing a holding company affiliate to vote the stock which it owns or controls of a subsidiary member bank

only at a designated meeting or meetings of the shareholders of such bank or at a meeting or meetings held within a designated period of time and for only such purposes as are stated in the permit.

(i) **Board.**—The term "Board" means the Board of Governors of the Federal Reserve System.

SECTION 216.2—ORGANIZATIONS NOT ENGAGED AS A BUSINESS IN HOLDING STOCK OF, OR MANAGING OR CONTROLLING, BANKS

(a) The term "holding company affiliate" does not include (except for the purposes of Sec. 23A of the Federal Reserve Act (48 Stat. 183, 49 Stat. 717; 12 U.S.C. 371c)) any organization which is determined by the Board not be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies. The Board will consider this matter in acting upon applications for voting permits and if, on the basis of the available information, it determines that an applicant is not so engaged within the meaning of the law, it will advise such applicant accordingly.

(b) If any organization which does not have a voting permit application pending before the Board desires that the Board determine that it is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, it shall file a request for such determination.

(1) Any such request shall be accompanied by full information concerning all matters having a bearing on the question, including the purpose for which the organization filing the request was organized, the nature and purpose of its present activities, the description and value of its various classes of assets, its relationships with affiliated organizations (including name and address of each such organization, the character of its business or other activities, and the nature of the relationship), and the bank stocks which it directly or indirectly owns or controls (including the number and value of the shares owned or controlled of each bank, the total number of outstanding shares of each bank, and the manner in and purpose for which such stock, or control thereof, was acquired and is held).[3]

(2) Any such request and the supporting information shall be in writing and shall be filed in duplicate with the Federal Reserve

[3] If the organization filing the request has previously been granted a general voting permit, it need only file such information as is necessary to supplement and bring up to date the information contained in its application for such permit.

agent at the Federal Reserve bank of the district in which the principal office of such organization is located. The Federal Reserve agent shall forward to the Board the original thereof together with his recommendations and the opinion of counsel for the Federal Reserve bank of such district.

SECTION 216.3—STATE MEMBER BANKS MUST OBTAIN AND FILE AGREEMENTS BY HOLDING COMPANY AFFILIATES

(a) Each State member bank which is or hereafter becomes a subsidiary of a holding company affiliate shall obtain from such holding company affiliate an agreement (Form P-5) that such holding company affiliate will be subject to the same conditions and limitations as are applicable to holding company affiliates of national banks under the provisions of section 5144 of the Revised Statutes (48 Stat. 186, 49 Stat. 710; 12 U.S.C. 61). Such agreement shall be obtained within 90 days after such member bank shall have become a subsidiary of the holding company affiliate.

(b) Upon the failure of a State member bank which is now or hereafter becomes a subsidiary of a holding company affiliate to obtain the requisite agreement within the time prescribed, the law makes it the duty of the Board to require such bank to surrender its stock of the Federal Reserve bank and to forfeit all rights and privileges of membership in the Federal Reserve System.

(c) The original and one copy of such agreement must be filed promptly with the Federal Reserve agent at the Federal Reserve bank of the district in which the holding company affiliate's principal office is located, and the original of such agreement shall be sent by such Federal Reserve agent to the Board.

(d) Any State banking institution applying for membership in the Federal Reserve System will be required to obtain and file a similar agreement (Form P-6) by any corporation, business trust, association, or other similar organization which will become a holding company affiliate of such banking institution upon the latter's admission to membership in the Federal Reserve System.

SECTION 216.4—NECESSITY FOR OBTAINING VOTING PERMITS

(a) No holding company affiliate of a national bank or of a State member bank which has executed the agreement required by § 216.3 may lawfully vote any share of stock of such bank for any purpose, other than to place such bank in voluntary liquidation or to take any other action pertaining to the voluntary liquidation of such bank, unless such holding company affiliate shall have first obtained a vot-

ing permit, pursuant to the provisions of section 5144 of the Revised Statutes (48 Stat. 186, 49 Stat. 710; 12 U.S.C. 61) and of this part and unless such voting permit shall be in force at the time such shares are voted.

(b) No State banking institution will be admitted to membership in the Federal Reserve System until each corporation, business trust, association, or other similar organization which will become a holding company affiliate of such banking institution upon the latter's admission to membership in the Federal Reserve System has filed an application for a voting permit. At its discretion, the Board will either (1) require that each such applicant for a voting permit comply with all conditions to the granting of a general voting permit prior to the admission of the bank to membership, or (2) admit the bank to membership subject to the condition that each such applicant obtain a general voting permit within a reasonable time.

SECTION 216.5—GRANTING OF VOTING PERMITS

(a) Any holding company affiliate of a member bank, and any such organization of which a nonmember bank applying for membership in the Federal Reserve System is a subsidiary, may make application to the Board for a voting permit entitling it to vote the shares owned or controlled by it at any or all meetings of shareholders of each of its subsidiary member banks or entitling the trustee or trustees holding the shares for its benefit or the benefit of its shareholders or members so to vote such shares.

(b) In acting upon an application for a voting permit, the Board is required to consider the financial condition of the applicant, the general character of its management, and the probable effect of the granting of such permit upon the affairs of each of its subsidiary member banks. The Board is vested with discretionary authority to grant or withhold any voting permit applied for as the public interest may require, *Provided, however,* That no voting permit shall be granted except upon certain conditions prescribed by law. Accordingly, each applicant for a voting permit will be required to execute certain agreements which are contained in Form P-1 (the application form) and the Board, in granting voting permits, will prescribe such additional conditions as it may, in the circumstances, deem reasonable and proper and in the public interest.

SECTION 216.6—PROCEDURE RELATING TO APPLICATIONS FOR VOTING PERMITS

(a) An applicant for a voting permit need file only one application,

notwithstanding the fact that it may desire permission to vote shares of more than one bank. The application shall be submitted on Form P-1 and the applicant shall furnish the exhibits referred to therein as a part of its application. Exhibits C, L, N, P, and Q shall be furnished on Forms P-2, P-3, P-4, P-5, and P-6, respectively. All forms (except signatures of persons executing same) should be filled out by typewriter. Instructions concerning the preparation of the other exhibits should be obtained from the Federal Reserve agent.

(b) The application and the exhibits referred to in the application blank shall be executed and filed in duplicate with the Federal Reserve agent at the Federal Reserve bank of the district in which the applicant's principal office is located and a copy thereof shall be filed with the Federal Reserve agent at the Federal Reserve bank of each other district in which a subsidiary member bank or subsidiary nonmember bank applying for membership is located.

(c) The Federal Reserve agent at the Federal Reserve bank of the district in which the applicant's principal office is located will forward the original application to the Board, with his recommendation and that of the executive committee of the Federal Reserve bank of his district. The Federal Reserve agent at the Federal Reserve bank of any other district in which a subsidiary member bank or a subsidiary nonmember bank applying for membership is located will forward to the Board his recommendation and that of the executive committee of the Federal Reserve bank of such district.

(d) If a holding company affiliate, which has filed an application for a voting permit, desires to vote shares of a subsidiary member bank at any meeting of the bank's shareholders before the Board grants it a general voting permit, such holding company affiliate may request the Board to grant a limited permit entitling it to vote the shares at such meeting. The request shall be in writing and shall be signed by a duly authorized officer of the applicant. It shall state the approximate date of the meeting and shall contain full information concerning the matters to be acted upon at such meeting. It shall be filed in duplicate with the Federal Reserve agent with whom the application for a voting permit has been filed and the Federal Reserve agent shall forward the original of such request to the Board with his recommendation.

SECTION 216.7—RESERVE REQUIREMENTS

Beginning June 16, 1938, every holding company affiliate must, during the life of any voting permit granted to it, comply with the pro-

visions of section 5144 of the Revised Statutes relating to reserves of readily marketable assets other than bank stock (58 Stat. 187; 12 U.S.C. 61). The assets required to be maintained as reserves may be used by the holding company affiliate for replacement of capital in banks affiliated with it and for the elimination of losses incurred in such banks; but any deficiency in such assets resulting from such use must be made up within a period of 2 years after the date such assets are so depleted, unless the Board, in its discretion, extends such period for cause.

SECTION 216.8—REVOCATION OF PERMIT

If it appears to the Board that any holding company affiliate has violated any of the provisions of the Banking Act of 1933 or of any agreement made pursuant to section 5144 of the Revised Statutes (48 Stat. 186, 49 Stat. 710; 12 U.S.C. 61), the Board may, in its discretion, revoke any voting permit theretofore granted to such holding company affiliate after giving 60 days' notice by registered mail of its intention to the holding company affiliate and affording it an opportunity to be heard.

SECTION 216.9—PARTICIPATION BY SUBSIDIARY MEMBER BANKS IN NOMINATION OR ELECTION OF DIRECTORS OF FEDERAL RESERVE BANKS

Whenever two or more member banks within the same Federal Reserve district are subsidiaries of the same holding company affiliate, only one such bank may participate in any nomination or election of directors of the Federal Reserve bank for such district, and the holding company affiliate of such subsidiary member banks may designate the particular subsidiary member bank which is to participate in such nomination or election. A holding company affiliate may designate one of its subsidiary member banks in each of the three groups into which member banks of each Federal Reserve district are divided for electoral purposes to participate in the nomination and election of each director chosen by the group of which such bank is a member.

SECTION 216.10—FORMS

All forms referred to in this part and all such forms as they may be amended from time to time shall be a part of the regulation in this part.

APPENDIX

STATUTORY PROVISIONS

Section 2, Banking Act of 1933—Section 2 of the Banking Act of 1933 (12 U.S.C. 221a) reads in part as follows:

Definition of "affiliate."—[4]

(b) Except where otherwise specifically provided, the term "affiliate" shall include any corporation, business trust, association, or other similar organization—

(1) Of which a member bank, directly or indirectly, owns or controls either a majority of the voting shares or more than 50 per centum of the number of shares voted for the election of its directors, trustees, or other persons exercising similar functions at the preceding election, or controls in any manner the election of a majority of its directors, trustees, or other persons exercising similar functions; or

(2) Of which control is held, directly or indirectly, through stock ownership or in any other manner, by the shareholders of a member bank who own or control either a majority of the shares of such bank or more than 50 per centum of the number of shares voted for the election of directors of such bank at the preceding election, or by trustees for the benefit of the shareholders of any such bank; or

(3) Of which a majority of its directors, trustees, or other persons exercising similar functions are directors of any one member bank.

Definition of "holding company affiliate."—

(c) The term "holding company affiliate" shall include any corporation, business trust, association, or other similar organization—

(1) Which owns or controls, directly or indirectly, either a majority of the shares of capital stock of a member bank or more than 50 per centum of the number of shares voted for the election of directors of any one bank at the preceding election, or controls in any manner the election of a majority of the directors of any one bank; or

(2) For the benefit of whose shareholders or members all or substantially all the capital stock of a member bank is held by trustees.

Notwithstanding the foregoing, the term "holding company affiliate" shall not include (except for the purposes of section 23A of the Federal Reserve Act, as amended) any corporation all of the stock of which is owned by the United States, or any organization which is determined by the Board of Governors of the Federal Reserve System

[4] This and subsequent catchlines are not a part of the law.

not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies.

Section 5144, Revised Statutes.—Section 5144 of the Revised Statutes of the United States (12 U.S.C. 61) reads in part as follows:

Voting of shares of national bank controlled by holding company affiliate.—

SEC. 5144. In all elections of directors, each shareholder shall have the right to vote the number of shares owned by him for as many persons as there are directors to be elected, or to cumulate such shares and give one candidate as many votes as the number of directors multiplied by the number of his shares shall equal, or to distribute them on the same principle among as many candidates as he shall think fit, and in deciding all other questions at meetings of shareholders, each shareholder shall be entitled to one vote on each share of stock held by him; except that * * * shares controlled by any holding company affiliate of a national bank[5] shall not be voted unless such holding company affiliate shall have first obtained a voting permit as hereinafter provided, which permit is in force at the time such shares are voted, but such holding company affiliate may, without obtaining such permit, vote in favor of placing the association in voluntary liquidation or taking any other action pertaining to the voluntary liquidation of such association. * * *

Shares deemed to be controlled.—

For the purposes of this section shares shall be deemed to be controlled by a holding company affiliate if they are owned or controlled directly or indirectly by such holding company affiliate, or held by any trustee for the benefit of the shareholders or members thereof.

Application for and granting of voting permits.—

Any such holding company affiliate may make application to the Board of Governors of the Federal Reserve System for a voting permit entitling it to vote the stock controlled by it at any or all meetings of shareholders of such bank or authorizing the trustee or trustees holding the stock for its benefit or for the benefit of its shareholders so to vote the same. The Board of Governors of the Federal Reserve

[5] Under section 9 of the Federal Reserve Act holding company affiliates of State member banks must agree to be subject to the same conditions and limitations as are applicable to holding company affiliates of national banks under this section of the Revised Statutes.

System may, in its discretion, grant or withhold such permit as the public interest may require. In acting upon such application, the Board shall consider the financial condition of the applicant, the general character of its management, and the probable effect of the granting of such permit upon the affairs of such bank, but no such permit shall be granted except upon the following conditions:

Examinations; publication of statements.—

(a) Every such holding company affiliate shall, in making the application for such permit, agree (1) to receive, on dates identical with those fixed for the examination of banks with which it is affiliated, examiners duly authorized to examine such banks, who shall make such examinations of such holding company affiliate as shall be necessary to disclose fully the relations between such banks and such holding company affiliate and the effect of such relations upon the affairs of such banks, such examinations to be at the expense of the holding company affiliate so examined; (2) that the reports of such examiners shall contain such information as shall be necessary to disclose fully the relations between such affiliate and such banks and the effect of such relations upon the affairs of such banks; (3) that such examiners may examine each bank owned or controlled by the holding company affiliate, both individually and in conjunction with other banks owned or controlled by such holding company affiliate; and (4) that publication of individual or consolidated statements of condition of such banks may be required;

Reserve requirements.—

(b) After five years after the enactment of the Banking Act of 1933, every such holding company affiliate (1) shall possess, and shall continue to possess during the life of such permit, free and clear of any lien, pledge, or hypothecation of any nature, readily marketable assets other than bank stock in an amount not less than 12 per centum of the aggregate par value of all bank stocks controlled by such holding company affiliate, which amount shall be increased by not less than 2 per centum per annum of such aggregate par value until such assets shall amount to 25 per centum of the aggregate par value of such bank stocks; and (2) shall reinvest in readily marketable assets other than bank stock all net earnings over and above 6 per centum per annum on the book value of its own shares outstanding until such assets shall amount to such 25 per centum of the aggregate par value of all bank stocks controlled by it;

(c) Notwithstanding the foregoing provisions of this section, after five years after the enactment of the Banking Act of 1933, (1) any such holding company affiliate the shareholders or members of which shall be individually and severally liable in proportion to the number of shares of such holding company affiliate held by them respectively, in addition to amounts invested therein, for all statutory liability imposed on such holding company affiliate by reason of its control of shares of stock of banks, shall be required only to establish and maintain out of net earnings over and above 6 per centum per annum on the book value of its own shares outstanding a reserve of readily marketable assets in an amount of not less than 12 per centum of the aggregate par value of bank stocks controlled by it, and (2) the assets required by this section to be possessed by such holding company affiliate may be used by it for replacement of capital in banks affiliated with it and for losses incurred in such banks, but any deficiency in such assets resulting from such use shall be made up within such period as the Board of Governors of the Federal Reserve System may by regulation prescribe and the provisions of this subsection, instead of subsection (b), shall apply to all holding company affiliates with respect to any shares of bank stock owned or controlled by them as to which there is no statutory liability imposed upon the holders of such bank stock. In any case in which there is more than one holding company affiliate with respect to the same bank or group of banks the establishment and maintenance of the reserve of readily marketable assets required by this paragraph by only one of such holding company affiliates, designated by the Board under such conditions as the Board may prescribe, shall constitute compliance with such reserve requirement: *Provided,* That all of the stock of the banks affiliated with such holding company affiliates which is directly or indirectly owned or controlled by them shall be owned or controlled directly or indirectly, by the one so designated by the Board. This proviso shall not be interpreted as authorizing the Board to require any such designated company to own such stock directly;

Penalties for false entries.—

(d) Every officer, director, agent, and employee of every such holding company affiliate shall be subject to the same penalties for false entries in any book, report, or statement of such holding company affiliate as are applicable to officers, directors, agents, and employees of member banks under section 1005 of Title 18, United States Code; and

Relationships with "securities companies"; payment of dividends.—

(e) Every such holding company affiliate shall, in its application for such voting permit, (1) show that it does not own, control, or have any interest in, and is not participating in the management or direction of, any corporation, business trust, association, or other similar organization formed for the purpose of, or engaged principally in, the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail or through syndicate participation, of stocks, bonds, debentures, notes, or other securities of any sort (hereinafter referred to as "securities company"); (2) agree that during the period that the permit remains in force it will not acquire any ownership, control, or interest in any such securities company or participate in the management or direction thereof; (3) agree that if, at the time of filing the application for such permit, it owns, controls, or has an interest in, or is participating in the management or direction of, any such securities company, it will, within five years after the filing of such application, divest itself of its ownership, control, and interest in such securities company and will cease participating in the management or direction thereof, and will not thereafter, during the period that the permit remains in force, acquire any further ownership, control, or interest in any such securities company or participate in the management or direction thereof; and (4) agree that thenceforth it will declare dividends only out of actual net earnings.

Revocation of voting permits; effect of revocation.—

If at any time it shall appear to the Board of Governors of the Federal Reserve System that any holding company affiliate has violated any of the provisions of the Banking Act of 1933 or of any agreement made pursuant to this section, the Board of Governors of the Federal Reserve System may, in its discretion, revoke any such voting permit after giving sixty days' notice by registered mail of its intention to the holding company affiliate and affording it an opportunity to be heard. Whenever the Board of Governors of the Federal Reserve System shall have revoked any such voting permit, no national bank whose stock is controlled by the holding company affiliate whose permit is so revoked shall receive deposits of public moneys of the United States, nor shall any such national bank pay any further dividend to such holding company affiliate upon any shares of such bank controlled by such holding company affiliate.

Whenever the Board of Governors of the Federal Reserve System

shall have revoked any voting permit as hereinbefore provided, the rights, privileges, and franchises of any or all national banks the stock of which is controlled by such holding company affiliate shall, in the discretion of the Board of Governors of the Federal Reserve System, be subject to forfeiture in accordance with section 2 of the Federal Reserve Act, as amended.

Section 9, Federal Reserve Act. Holding company affiliates of State member banks.—Section 9 of the Federal Reserve Act (12 U.S.C. 337) reads in part as follows:

Each State member bank affiliated with a holding company affiliate shall obtain from such holding company affiliate, within such time as the Board of Governors of the Federal Reserve System shall prescribe, an agreement that such holding company affiliate shall be subject to the same conditions and limitations as are applicable under section 5144 of the Revised Statutes, as amended, in the case of holding company affiliates of national banks. A copy of each such agreement shall be filed with the Board of Governors of the Federal Reserve System. Upon the failure of a State member bank affiliated with a holding company affiliate to obtain such an agreement within the time so prescribed, the Board of Governors of the Federal Reserve System shall require such bank to surrender its stock in the Federal Reserve bank and to forfeit all rights and privileges of membership in the Federal Reserve System as provided in this section. Whenever the Board of Governors of the Federal Reserve System shall have revoked the voting permit of any such holding company affiliate, the Board of Governors of the Federal Reserve System may, in its discretion, require any or all State member banks affiliated with such holding company affiliate to surrender their stock in the Federal Reserve bank and to forfeit all rights and privileges of membership in the Federal Reserve System as provided in this section.

Section 4, Federal Reserve Act. Election of Federal Reserve bank directors.—The provisions of section 4 of the Federal Reserve Act (12 U.S.C. 304) relating to the nomination and election of Class A and Class B directors of the Federal Reserve banks include the following proviso:

Provided, That whenever any two or more member banks within the same Federal Reserve district are affiliated with the same holding company affiliate, participation by such member banks in any such nomination or election shall be confined to one of such banks, which may be designated for the purpose by such holding company affiliate.

BOARD OF GOVERNORS

of the

FEDERAL RESERVE SYSTEM

BANK HOLDING COMPANIES

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REGULATION Y

(12 CFR 222)

As amended, effective July 1, 1960

Print of December 1960

INQUIRIES REGARDING THIS REGULATION

Any inquiry relating to this regulation should be addressed to the Federal Reserve Bank of the Federal Reserve district in which the inquiry arises. Forms necessary for the preparation of registration statements, applications, requests and reports may be obtained from any Federal Reserve Bank.

CONTENTS

REGULATION Y

(12 CFR 222)

As amended, effective July 1, 1960

BANK HOLDING COMPANIES*

SECTION 222.1—AUTHORITY AND SCOPE

This part is issued pursuant to the Bank Holding Company Act of 1956.[1] Provisions relating to holding company affiliates, as defined in section 2 *(c)* of the Banking Act of 1933, are contained in Part 216 of this Chapter (Reg. P).[2]

SECTION 222.2—DEFINITIONS

(a) **Bank holding company.**—Subject to the exceptions stated in paragraph *(b)* of this section, the term "bank holding company" means any company:

(1) Which directly or indirectly owns, controls, or holds with power to vote either:

(i) 25 per centum or more of the voting shares of each of two or more banks, or

(ii) 25 per centum or more of the voting shares of any other company which is or becomes a bank holding company;

(2) Which controls in any manner the election of a majority of the directors of each of two or more banks;

(3) For the benefit of whose shareholders or members 25 per centum or more of the voting shares of each of two or more banks or of a bank holding company is held by trustees; or

(4) Which is a successor to any company that falls within subparagraphs (1), (2), or (3) of this paragraph, and any such successor shall be deemed to be a bank holding company from the date as of which its predecessor company became a bank holding company.

(b) **Exceptions from definition of "bank holding company".**—No company shall be considered a bank holding company:

(1) If it is a bank and it would otherwise be a bank holding company only by virtue of its ownership or control of shares in a fiduciary capacity, provided such shares are not held for the benefit of the shareholders of such bank;

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* The text corresponds to the Code of Federal Regulations, Title 12, Chapter II, Part 222; cited as 12 CFR 222.

[1] The record keeping and reporting requirements contained herein have been approved by the Bureau of the Budget in accordance with the Federal Reports Act of 1942.

[2] The Bank Holding Company Act of 1956 and this part are in addition to, and do not take the place of, provisions of other laws, such as section 5144 of the Revised Statutes, and Part 216 of this chapter (Reg. P) thereunder, which relate to holding company affiliates as distinguished from bank holding companies.

(2) If (i) it is registered under the Investment Company Act of 1940 and was so registered prior to May 15, 1955, or is affiliated with any such registered company in such manner as to constitute it an affiliated company within the meaning of that act, and (ii) it does not directly own 25 per centum or more of the voting shares of each of two or more banks;

(3) If it would otherwise be a bank holding company only by virtue of its ownership or control of shares acquired by it in connection with its underwriting of securities and if such shares are held only for such period of time as will permit the sale thereof upon a reasonable basis;

(4) If it was formed for the sole purpose of participating in a proxy solicitation and would otherwise be a bank holding company only by virtue of its control of voting rights of shares acquired in the course of such solicitation; or

(5) If at least 80 per centum of its total assets are composed of holdings in the field of agriculture, and for this purpose the term "agriculture" includes farming in all its branches, including fruit-growing, dairying, the raising of livestock, bees, fur-bearing animals, or poultry, forestry or lumbering operations, and the production of naval stores, and operations directly related thereto.

(c) **Company.**—The term "company" means any corporation (including a bank), business trust, association, or similar organization, except:

(1) Any corporation the majority of the shares of which are owned by the United States or by any State;

(2) Any corporation or community chest, fund, or foundation, organized and operated exclusively for religious, charitable, or educational purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual, and no substantial part of the activities of which is carrying on propaganda, or otherwise attempting to influence legislation; and

(3) Any partnership.

(d) **Bank.**—The term "bank" means any national banking association or any State bank, savings bank, or trust company, but shall not include any organization operating under section 25 *(a)* of the Federal Reserve Act, or any organization which does not do any business within the United States.

(e) **State member bank.**—The term "State member bank" means any State bank which is a member of the Federal Reserve System.

(f) **District bank.**—The term "District bank" means any State bank organized or operating under the Code of Law for the District of Columbia.

(g) **Subsidiary.**—The term "subsidiary", as used with respect to a specified bank holding company, means:

(1) Any company 25 per centum or more of whose voting shares (excluding shares owned by the United States or by any company wholly owned by the United States) is owned or controlled by such bank holding company;

(2) Any company the election of a majority of whose directors is controlled in any manner by such bank holding company; or

(3) Any company 25 per centum or more of whose voting shares is held by trustees for the benefit of the shareholders or members of such bank holding company.

(h) **Successor.**—The term "successor" includes any company which acquires directly or indirectly from a bank holding company shares of any bank, when and if the relationship between such company and such bank holding company is such that the transaction effects no substantial change in the control of such bank or beneficial ownership of such shares of such bank.

(i) **Board.**—The term "Board" means the Board of Governors of the Federal Reserve System.

(j) **The act.**—The term "the act" means the Bank Holding Company Act of 1956.

(k) **Federal Reserve Bank.**—The term "Federal Reserve Bank" as used in this part with respect to the filing of registration statements, applications, requests, or reports by a bank holding company or other company shall mean the Federal Reserve Bank of the Federal Reserve district in which such company has its principal office.

SECTION 222.3—REGISTRATION

(a) **Registration statement.**—On or before November 5, 1956, or within 180 days after it becomes a bank holding company, whichever is later, each bank holding company shall register with the Board by filing with the Federal Reserve Bank a registration statement, in duplicate, on forms prescribed by the Board. Upon timely application by any bank holding company and upon a satisfactory showing as to the need therefor, the Board in its discretion may extend the time prescribed herein for the filing of a registration statement by such bank holding company.

(b) **Date of registration.**—The date of registration of a bank holding company shall be the date on which its registration statement is received by the Federal Reserve Bank with which such statement is required to be filed.

SECTION 222.4—ACQUISITION OF BANK SHARES OR ASSETS

(a) **Transactions requiring Board approval.**—Except with the prior approval of the Board or except as provided in paragraph *(b)* of this section:

(1) No action shall be taken which will result in any company becoming a bank holding company;

(2) No bank holding company shall acquire direct or indirect ownership or control of any voting shares of any bank;

(3) No bank holding company which is not a bank and no non-banking subsidiary of a bank holding company shall acquire all or substantially all of the assets of a bank; and

(4) No bank holding company shall merge or consolidate with any other bank holding company.

(b) **Excepted transactions.**—Prior approval by the Board is not required with respect to any of the following transactions:

(1) The acquisition by a bank holding company of direct or indirect ownership or control of any voting shares of any bank if after such acquisition, such company will not directly or indirectly own or control more than 5 per centum of the voting shares of such bank;

(2) The acquisition by a bank holding company of additional shares in a bank in which such bank holding company owned or controlled a majority of the voting shares immediately prior to such acquisition; or

(3) The acquisition by a bank (including a bank which is a bank holding company or a subsidiary of a bank holding company) of the voting shares of any bank, if:

(i) Such shares are acquired in good faith in a fiduciary capacity and are not held for the benefit of the shareholders of the acquiring bank, or

(ii) Such shares are acquired in the regular course of securing or collecting a debt previously contracted in good faith: *Provided,* That any shares acquired after the date of the act in securing or collecting any such previously contracted debt shall be disposed of within a period of two years from the date on which they were acquired.

(c) **Applications which will not be approved.**—No application will be approved by the Board if such approval would permit a bank holding company or any subsidiary thereof to acquire, directly or indirectly, any voting shares of, interest in, or all or substantially all of the assets of any bank which was not a subsidiary of the bank holding company on the date of enactment of the act and which is

located outside the State in which such bank holding company maintains its principal office and place of business or in which it conducts its principal operations, unless the acquisition of such shares or assets of a State bank by an out-of-State bank holding company is specifically authorized by the statute laws of the State in which such bank is located, by language to that effect and not merely by implication.

(d) **Submission of applications.**—An application for approval by the Board of any transaction requiring such approval under paragraph *(a)* of this section shall be filed with the Federal Reserve Bank.[2a] Three copies of such application shall be filed except where, pursuant to the provisions of paragraph *(e)* of this section, copies of the application are required to be transmitted to both the Comptroller of the Currency and the appropriate State supervisory authority, in which circumstances four copies of the application shall be filed. The application shall be filed not less than 60 days before the date on which it is proposed that the transaction requiring approval be consummated.[3] However, the Board in its discretion may, upon good cause shown, accept an application although submitted within such period of 60 days. A separate application shall be filed with respect to each bank the voting shares or assets of which are sought to be acquired by an existing bank holding company or nonbanking subsidiary thereof.

(e) **Procedure on applications.**—(1) A Federal Reserve Bank receiving an application under this section will retain one copy thereof and will forward all other copies to the Board. If either the applicant or the bank the voting shares or assets of which are sought to be acquired is a national bank or a District bank, the Board will transmit a copy of the application to the Comptroller of the Currency. If either the applicant or the bank the voting shares or assets of which are sought to be acquired is a State bank, the Board will transmit a copy of the application to the bank supervisory authority of the State in which such bank is located.

(2) Following the receipt of an application under this section, the Board will publish in the Federal Register a notice of such receipt, stating the names and addresses of the applicant and the bank or banks involved, indicating the general nature of the proposed transaction, and allowing 30 days (or a shorter period in exceptional circumstances) for the submission of written comments or views. Such comments or views shall be submitted to the Board or to the Federal Reserve Bank for transmission to the Board.

[2a] The term "Federal Reserve Bank", as used herein, means the Federal Reserve Bank of the Federal Reserve district in which the applicant has its principal office.

[3] In some cases it may not be possible for the Board to act upon an application within such period of 60 days and this requirement should not be regarded as suggesting that the Board will act upon all applications within that period of time, although every effort will be made to expedite such action.

(f) **Hearings on applications.**—In any case in which the Board receives written advice of disapproval of the application from the Comptroller of the Currency or the appropriate State supervisory authority, as the case may be, within 30 days from the date of receipt of the application by the notified authority, the Board will so notify the applicant in writing, directing the applicant's attention to the provisions of section 3 *(b)* of the act. Within three days after the date of the sending of such notice to the applicant, the Board will notify in writing the applicant and the Comptroller of the Currency or the appropriate State supervisory authority, as the case may be, of the date fixed by the Board for the commencement of a hearing on the application and of the place and time at which such hearing will be held. Any such hearing will be commenced not less than ten days nor more than thirty days after the date on which the Board sent the applicant notice of the disapproval of the Comptroller of the Currency or the appropriate State supervisory authority.

(g) **Action on applications.**—In any case in which a hearing is held in accordance with paragraph *(f)* of this section, the Board, after the conclusion of such hearing, will by order grant or deny the application on the basis of the record made at such hearing. In all other cases, the Board will by order grant or deny the application after receipt by it of advice that the Comptroller of the Currency or the appropriate State supervisory authority, as the case may be, does not disapprove the application, or, if no such advice is received, after the expiration of thirty days from the date of receipt of the copy of the application by the Comptroller of the Currency or such State authority.

(h) **Factors affecting action.**—In acting upon any application the Board, as required by the act, will consider the following factors:

(1) The financial history and condition of the applicant and the bank or banks concerned;

(2) The prospects of the applicant and the bank or banks concerned;

(3) The character of the management of the applicant and the bank or banks concerned;

(4) The convenience, needs, and welfare of the communities and the area concerned; and

(5) Whether or not the effect of the proposed transaction for which approval is desired would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

SECTION 222.5—INTERESTS IN NONBANKING ORGANIZATIONS

(a) **Period allowed for divestment.**—No bank holding company, except as provided in section 4 *(c)* of the act, shall (1) after the date of enactment of the act acquire direct or indirect ownership or control of any voting shares of any company which is not a bank, or (2) after two years from the date of enactment of the act or from the date as of which it becomes a bank holding company, whichever is later, retain direct or indirect ownership or control of any voting shares of any company which is not a bank or a bank holding company, or engage in any business other than that of banking or of managing or controlling banks or of furnishing services to or performing services for any bank of which it owns or controls 25 per centum or more of the voting shares. Upon timely request and upon a satisfactory showing of the need therefor, the Board in its discretion may extend the two-year period referred to in the preceding sentence, except that, as provided by the act, no such extension of time may be approved by the Board for more than one year at a time or for any period beyond a date five years after the date of enactment of the act or five years after the date as of which the company became a bank holding company, whichever is later.

(b) **Shares of financial, fiduciary, or insurance companies.**—Any bank holding company which is of the opinion that a company all the activities of which are of a financial, fiduciary, or insurance nature is so closely related to the business of banking or of managing or controlling banks, as conducted by such bank holding company or its banking subsidiaries, as to be a proper incident thereto and as to make it unnecessary for the prohibitions of section 4 of the act to apply in order to carry out the purposes of the act, may request the Board for such a determination pursuant to section 4 *(c)* (6) of the act. Any such request shall be filed in duplicate with the Federal Reserve Bank. After receipt of any such request, the Board will notify the bank holding company of the place and time fixed for a hearing on the requested determination; and, after the conclusion of such hearing and on the basis of the record made at the hearing, the Board will by order make or decline to make the requested determination.

(c) **Tax certifications.**—Any bank holding company desiring a certification by the Board for purposes of the provisions of Part VIII of Subchapter O of Chapter 1 of the Internal Revenue Code of 1954, as amended by the act, may file an application in duplicate for such certification with the Federal Reserve Bank; and any such application will be forwarded by the Federal Reserve Bank to the Board. Any application for a certification under subsections *(a)*, *(b)*, or *(c)*

of section 1101 of said Part VIII shall be filed not less than sixty days in advance of the distribution, or exchange and distribution, with respect to which such certification is desired.[4] Upon timely request by any bank holding company and upon a satisfactory showing as to the need therefor, the Board in its discretion may accept an application for any such certification although submitted within such 60-day period. On the basis of an application under this paragraph, the Board will either issue a certification or by order deny the application. A duplicate original of each certification will be transmitted to the Internal Revenue Service of the Treasury Department.

SECTION 222.6—BORROWING BY BANK HOLDING COMPANY OR ITS SUBSIDIARIES

It is unlawful under the act, with certain exceptions, for any bank which is a subsidiary of a bank holding company to invest in the capital stock, bonds, debentures, or other obligations of such company or of any other subsidiary of such company; to accept as collateral for an advance to any person the capital stock, bonds, debentures, or other obligations of such company or any such other subsidiary; to purchase securities, other assets, or obligations under repurchase agreement from such company or any such other subsidiary; or to make any loan, discount or extension of credit to such company or any such other subsidiary. For statutory provisions on this subject, see section 6 of the Act.

SECTION 222.7—HEARINGS AND PROCEEDINGS

(a) **Hearings.**—In addition to hearings required by the Act (see § 222.4 *(f)* and § 222.5 *(b)*), a hearing may be ordered by the Board in its discretion with respect to any application or request under this part, either upon its own motion or upon the request of any party in interest, if the Board deems such hearing to be in the interests of the parties or the public interest. Notice of any hearing required by the act will be published in the Federal Register a reasonable time in advance of the date fixed for the hearing; and any hearings so required will ordinarily be held before trial examiners appointed in accordance with the provisions of the Administrative Procedure Act. All hearings under this part will be conducted in accordance with Part 263 of this chapter (Rules of Practice for Formal Hearings).

(b) **Record of proceedings.**—The record in any proceeding under this part upon which an order of the Board is based shall consist of the application or request filed with the Board in connection with

[4] In some cases it may not be possible for the Board to act upon an application within such period of 60 days and this requirement should not be regarded as suggesting that the Board will act upon all applications within that period of time, although every effort will be made to expedite such action.

such proceeding; any views and recommendations received by the Board from the Comptroller of the Currency or the appropriate State supervisory authority pursuant to section 3 *(b)* of the act; the transcript of any hearing held with respect to such application or request and any report and recommendation made by the trial examiner or hearing officer before whom such hearing was held; any other document or writing relied upon by the Board in making disposition of the matter; and any order of the Board granting or denying the application or request.

(c) **Parties.**—A party to any proceeding under this part shall include any person or agency named or admitted as a party or any person who has filed a request in writing to be admitted as a party and who is entitled as of right to be admitted.

SECTION 222.8—REPORTS AND EXAMINATIONS

Each bank holding company shall furnish to the Board in a form to be prescribed by the Board a report of its operations for its fiscal year ending in 1956 or the fiscal year in which it became a bank holding company, whichever is later, and for each fiscal year thereafter until it ceases to be a bank holding company. Each such annual report shall be filed, in duplicate, with the Federal Reserve Bank. Each bank holding company shall furnish to the Board such additional information at such times as the Board may require. The Board may examine any bank holding company or any of its subsidiaries and the cost of any such examination shall be assessed against and paid by such bank holding company. As far as possible the Board will use reports of examinations made by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, or the appropriate State bank supervisory authority for the purposes of this section.

SECTION 222.9—STATUTORY PENALTIES

Under the act, any company which willfully violates any provision of the act or any regulation or order issued by the Board pursuant thereto shall upon conviction be fined not more than $1,000 for each day during which the violation continues; and any individual who willfully participates in a violation of any provision of the act shall upon conviction be fined not more than $10,000 or imprisoned not more than one year, or both. Every officer, director, agent, and employee of a bank holding company is subject under the act to the same penalties for false entries in any book, report, or statement of such bank holding company as are applicable to officers, directors, agents, and employees of member banks of the Federal Reserve System for false entries in any books, reports, or statements of member banks under section 1005 of Title 18, U. S. Code.

APPENDIX

STATUTORY PROVISIONS

Bank Holding Company Act of 1956

Act of May 9, 1956 (70 Stat. 133)

AN ACT

To define bank holding companies, control their future expansion, and require divestment of their nonbanking interests.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Bank Holding Company Act of 1956"

DEFINITIONS

SEC. 2. *(a)* "Bank holding company" means any company (1) which directly or indirectly owns, controls, or holds with power to vote, 25 per centum or more of the voting shares of each of two or more banks or of a company which is or becomes a bank holding company by virtue of this Act, or (2) which controls in any manner the election of a majority of the directors of each of two or more banks, or (3) for the benefit of whose shareholders or members 25 per centum or more of the voting shares of each of two or more banks or a bank holding company is held by trustees; and for the purposes of this Act, any successor to any such company shall be deemed to be a bank holding company from the date as of which such predecessor company became a bank holding company. Notwithstanding the foregoing (A) no bank shall be a bank holding company by virtue of its ownership or control of shares in a fiduciary capacity, except where such shares are held for the benefit of the shareholders of such bank, (B) no company shall be a bank holding company which is registered under the Investment Company Act of 1940, and was so registered prior to May 15, 1955 (or which is affiliated with any such company in such manner as to constitute an affiliated company within the meaning of such Act), unless such company (or such affiliated company), as the case may be, directly owns 25 per centum or more of the voting shares of each of two or more banks, (C) no company shall be a bank holding company by virtue of its ownership or control of shares acquired by it in connection with its underwriting of securities and which are held only for such period of time as will permit the sale thereof upon a reasonable basis, (D) no company formed for the sole purpose of participating in a proxy solicitation shall be a bank holding company by virtue of its control of voting rights of shares acquired in the course of such solicitation, and (E) no company shall be a bank holding company

if at least 80 per centum of its total assets are composed of holdings in the field of agriculture.

(b) "Company" means any corporation, business trust, association, or similar organization, but shall not include (1) any corporation the majority of the shares of which are owned by the United States or by any State, or (2) any corporation or community chest, fund, or foundation, organized and operated exclusively for religious, charitable, or educational purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual, and no substantial part of the activities of which is carrying on propaganda, or otherwise attempting to influence legislation, or (3) any partnership.

(c) "Bank" means any national banking association or any State bank, savings bank, or trust company, but shall not include any organization operating under section 25 *(a)* of the Federal Reserve Act, or any organization which does not do business within the United States. "State member bank" means any State bank which is a member of the Federal Reserve System. "District bank" means any State bank organized or operating under the Code of Law for the District of Columbia.

(d) "Subsidiary", with respect to a specified bank holding company, means (1) any company 25 per centum or more of whose voting shares (excluding shares owned by the United States or by any company wholly owned by the United States) is owned or controlled by such bank holding company; or (2) any company the election of a majority of whose directors is controlled in any manner by such bank holding company; or (3) any company 25 per centum or more of whose voting shares are held by trustees for the benefit of the shareholders or members of such bank holding company.

(e) The term "successor" shall include any company which acquires directly or indirectly from a bank holding company shares of any bank, when and if the relationship between such company and the bank holding company is such that the transaction effects no substantial change in the control of the bank or beneficial ownership of such shares of such bank. The Board may, by regulation, further define the term "successor" to the extent necessary to prevent evasion of the purposes of this Act.

(f) "Board" means the Board of Governors of the Federal Reserve System.

(g) "Agriculture", as used in section 2 *(a)*, includes farming in all its branches including fruitgrowing, dairying, the raising of livestock, bees, fur-bearing animals, or poultry, forestry or lumbering operations, and the production of naval stores, and operations directly related thereto.

[12 U.S.C. 1841.]

ACQUISITION OF BANK SHARES OR ASSETS

SEC. 3. *(a)* It shall be unlawful except with the prior approval of the Board (1) for any action to be taken which results in a company becoming a bank holding company under section 2 *(a)* of this Act; (2) for any bank holding company to acquire direct or indirect ownership or control of any voting shares of any bank if, after such acquisition, such company will directly or indirectly own or control more than 5 per centum of the voting shares of such bank; (3) for any bank holding company or subsidiary thereof, other than a bank, to acquire all or substantially all of the assets of a bank; or (4) for any bank holding company to merge or consolidate with any other bank holding company. Notwithstanding the foregoing this prohibition shall not apply to (A) shares acquired by a bank, (i) in good faith in a fiduciary capacity, except where such shares are held for the benefit of the shareholders of such bank, or (ii) in the regular course of securing or collecting a debt previously contracted in good faith, but any shares acquired after the date of enactment of this Act in securing or collecting any such previously contracted debt shall be disposed of within a period of two years from the date on which they were acquired; or (B) additional shares acquired by a bank holding company in a bank in which such bank holding company owned or controlled a majority of the voting shares prior to such acquisition.

(b) Upon receiving from a company any application for approval under this section, the Board shall give notice to the Comptroller of the Currency, if the applicant company or any bank the voting shares or assets of which are sought to be acquired is a national banking association or a District bank, or to the appropriate supervisory authority of the interested State, if the applicant company or any bank the voting shares or assets of which are sought to be acquired is a State bank, and shall allow thirty days within which the views and recommendations of the Comptroller of the Currency or the State supervisory authority, as the case may be, may be submitted. If the Comptroller of the Currency or the State supervisory authority so notified by the Board disapproves the application in writing within said thirty days, the Board shall forthwith give written notice of that fact to the applicant. Within three days after giving such notice to the applicant, the Board shall notify in writing the applicant and the disapproving authority of the date for commencement of a hearing by it on such application. Any such hearing shall be commenced not less than ten nor more than thirty days after the Board has given written notice to the applicant of the action of the disapproving authority. The length of any such hearing shall be determined by the Board, but it shall afford all interested parties a reasonable opportunity to testify

at such hearing. At the conclusion thereof, the Board shall by order grant or deny the application on the basis of the record made at such hearing.

(c) In determining whether or not to approve any acquisition or merger or consolidation under this section, the Board shall take into consideration the following factors: (1) the financial history and condition of the company or companies and the banks concerned; (2) their prospects; (3) the character of their management; (4) the convenience, needs, and welfare of the communities and the area concerned; and (5) whether or not the effect of such acquisition or merger or consolidation would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

(d) Notwithstanding any other provision of this section, no application shall be approved under this section which will permit any bank holding company or any subsidiary thereof to acquire, directly or indirectly, any voting shares of, interest in, or all or substantially all of the assets of any additional bank located outside of the State in which such bank holding company maintains its principal office and place of business or in which it conducts its principal operations unless the acquisition of such shares or assets of a State bank by an out-of-State bank holding company is specifically authorized by the statute laws of the State in which such bank is located, by language to that effect and not merely by implication.

[12 U.S.C. 1842.]

INTERESTS IN NONBANKING ORGANIZATIONS

SEC. 4. *(a)* Except as otherwise provided in this Act, no bank holding company shall—

(1) after the date of enactment of this Act acquire direct or indirect ownership or control of any voting shares of any company which is not a bank, or

(2) after two years from the date of enactment of this Act or from the date as of which it becomes a bank holding company, whichever is later, retain direct or indirect ownership or control of any voting shares of any company which is not a bank or a bank holding company or engage in any business other than that of banking or of managing or controlling banks or of furnishing services to or performing services for any bank of which it owns or controls 25 per centum or more of the voting shares.

The Board is authorized, upon application by a bank holding company, to extend the period referred to in paragraph (2) above from time to time as to such bank holding company for not more than one

year at a time if, in its judgment, such an extension would not be detrimental to the public interest, but no such extensions shall extend beyond a date five years after the date of enactment of this Act or five years after the date as of which a company becomes a bank holding company, whichever is later.

(b) After two years from the date of enactment of this Act, no certificate evidencing shares of any bank holding company shall bear any statement purporting to represent shares of any other company except a bank or a bank holding company, nor shall the ownership, sale, or transfer of shares of any bank holding company be conditioned in any manner whatsoever upon the ownership, sale, or transfer of shares of any other company except a bank or a bank holding company.

(c) The prohibitions in this section shall not apply—

(1) to shares owned or acquired by a bank holding company in any company engaged solely in holding or operating properties used wholly or substantially by any bank with respect to which it is a bank holding company in its operations or acquired for such future use or engaged solely in conducting a safe deposit business, or solely in the business of furnishing services to or performing services for such holding company and banks with respect to which it is a bank holding company, or in liquidating assets acquired from such bank holding company and such banks;

(2) to shares acquired by a bank holding company which is a bank, or by any banking subsidiary of a bank holding company, in satisfaction of a debt previously contracted in good faith, but such bank holding company or such subsidiaries shall dispose of such shares within a period of two years from the date on which they were acquired or from the date of enactment of this Act, whichever is later;

(3) to shares acquired by a bank holding company from any of its subsidiaries which subsidiary has been requested to dispose of such shares by any Federal or State authority having statutory power to examine such subsidiary, but such bank holding company shall dispose of such shares within a period of two years from the date on which they were acquired or from the date of enactment of this Act, whichever is later;

(4) to shares which are held or acquired by a bank holding company which is a bank or by any banking subsidiary of a bank holding company, in good faith in a fiduciary capacity, except where such shares are held for the benefit of the shareholders of such bank holding company or any of its subsidiaries, or to shares which are of the kinds and amounts eligible for investment by National

banking associations under the provisions of section 5136 of the Revised Statutes, or to shares lawfully acquired and owned prior to the date of enactment of this Act by a bank which is a bank holding company, or by any of its wholly owned subsidiaries;

(5) to shares of any company which are held or acquired by a bank holding company which do not include more than 5 per centum of the outstanding voting securities of such company, and do not have a value greater than 5 per centum of the value of the total assets of the bank holding company, or to the ownership by a bank holding company of shares, securities, or obligations of an investment company which is not a bank holding company and which is not engaged in any business other than investing in securities, which securities do not include more than 5 per centum of the outstanding voting securities of any company and do not include any single asset having a value greater than 5 per centum of the value of the total assets of the bank holding company;

(6) to shares of any company all the activities of which are of a financial, fiduciary, or insurance nature and which the Board after due notice and hearing, and on the basis of the record made at such hearing, by order has determined to be so closely related to the business of banking or of managing or controlling banks as to be a proper incident thereto and as to make it unnecessary for the prohibitions of this section to apply in order to carry out the purposes of this Act;

(7) to any bank holding company which is a labor, agricultural, or horticultural organization and which is exempt from taxation under section 501 of the Internal Revenue Code of 1954; or

(8) to shares held or acquired by a bank holding company in any company which is organized under the laws of a foreign country and which is engaged principally in the banking business outside the United States.

[12 U.S.C. 1843.]

ADMINISTRATION

SEC. 5. *(a)* Within one hundred and eighty days after the date of enactment of this Act, or within one hundred and eighty days after becoming a bank holding company, whichever is later, each bank holding company shall register with the Board on forms prescribed by the Board, which shall include such information with respect to the financial condition and operations, management, and intercompany relationships of the bank holding company and its subsidiaries, and related matters, as the Board may deem necessary or appropriate to carry out the purposes of this Act. The Board may, in its dis-

cretion, extend the time within which a bank holding company shall register and file the requisite information.

(b) The Board is authorized to issue such regulations and orders as may be necessary to enable it to administer and carry out the purposes of this Act and prevent evasions thereof.

(c) The Board from time to time may require reports under oath to keep it informed as to whether the provisions of this Act and such regulations and orders issued thereunder have been complied with; and the Board may make examinations of each bank holding company and each subsidiary thereof, the cost of which shall be assessed against, and paid by, such holding company. The Board shall, as far as possible, use the reports of examinations made by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, or the appropriate State bank supervisory authority for the purposes of this section.

(d) Before the expiration of two years following the date of enactment of this Act, and each year thereafter in the Board's annual report to the Congress, the Board shall report to the Congress the results of the administration of this Act, stating what, if any, substantial difficulties have been encountered in carrying out the purposes of this Act, and any recommendations as to changes in the law which in the opinion of the Board would be desirable.

[12 U.S.C. 1844.]

BORROWING BY BANK HOLDING COMPANY OR ITS SUBSIDIARIES

SEC. 6. *(a)* From and after the date of enactment of this Act, it shall be unlawful for a bank—

(1) to invest any of its funds in the capital stock, bonds, debentures, or other obligations of a bank holding company of which it is a subsidiary, or of any other subsidiary of such bank holding company;

(2) to accept the capital stock, bonds, debentures, or other obligations of a bank holding company of which it is a subsidiary or any other subsidiary of such bank holding company, as collateral security for advances made to any person or company: *Provided, however,* That any bank may accept such capital stock, bonds, debentures, or other obligations as security for debts previously contracted, but such collateral shall not be held for a period of over two years;

(3) to purchase securities, other assets or obligations under repurchase agreement from a bank holding company of which it is a subsidiary or any other subsidiary of such bank holding company; and

(4) to make any loan, discount or extension of credit to a bank holding company of which it is a subsidiary or to any other subsidiary of such bank holding company.

Non-interest-bearing deposits to the credit of a bank shall not be deemed to be a loan or advance to the bank of deposit, nor shall the giving of immediate credit to a bank upon uncollected items received in the ordinary course of business be deemed to be a loan or advance to the depositing bank.

(b) The provisions of this section shall not apply (1) to the capital stock, bonds, debentures, or other obligations of any company described in section 4 *(c)* (1) of this Act, or (2) to any company whose subsidiary status has arisen out of a bona fide debt to the bank contracted prior to the date of the creation of such status, or (3) to any company whose subsidiary status exists by reason of the ownership or control of voting shares thereof by the bank as executor, administrator, trustee, receiver, agent, or depositary, or in any other fiduciary capacity, except where such shares are held for the benefit of all or a majority of the stockholders of such bank.

[12 U.S.C. 1845.]

RESERVATION OF RIGHTS TO STATES

SEC. 7. The enactment by the Congress of the Bank Holding Company Act of 1956 shall not be construed as preventing any State from exercising such powers and jurisdiction which it now has or may hereafter have with respect to banks, bank holding companies, and subsidiaries thereof.

[12 U.S.C. 1846.]

PENALTIES

SEC. 8. Any company which willfully violates any provision of this Act, or any regulation or order issued by the Board pursuant thereto, shall upon conviction be fined not more than $1,000 for each day during which the violation continues. Any individual who willfully participates in a violation of any provision of this Act shall upon conviction be fined not more than $10,000 or imprisoned not more than one year, or both. Every officer, director, agent, and employee of a bank holding company shall be subject to the same penalties for false entries in any book, report, or statement of such bank holding company as are applicable to officers, directors, agents, and employees of member banks for false entries in any books, reports, or statements of member banks under section 1005 of title 18, United States Code.

[12 U.S.C. 1847.]

JUDICIAL REVIEW

SEC. 9. Any party aggrieved by an order of the Board under this Act may obtain a review of such order in the United States Court of Appeals within any circuit wherein such party has its principal place of business, or in the Court of Appeals in the District of Columbia, by filing in the court, within sixty days after the entry of the Board's order, a petition praying that the order of the Board be set aside. A copy of such petition shall be forthwith transmitted to the Board by the clerk of the court, and thereupon the Board shall file in the court the record made before the Board, as provided in section 2112 of title 28, United States Code. Upon the filing of such petition the court shall have jurisdiction to affirm, set aside, or modify the order of the Board and to require the Board to take such action with regard to the matter under review as the court deems proper. The findings of the Board as to the facts, if supported by substantial evidence, shall be conclusive.

[12 U.S.C. 1848.]

AMENDMENTS TO INTERNAL REVENUE CODE OF 1954

SEC. 10. *(a)* Subchapter O of chapter 1 of the Internal Revenue Code of 1954 is amended by adding at the end thereof the following new part:

"PART VIII—DISTRIBUTIONS PURSUANT TO BANK HOLDING COMPANY ACT OF 1956

"Sec. 1101. Distributions pursuant to Bank Holding Company Act of 1956.
"Sec. 1102. Special rules.
"Sec. 1103. Definitions.

"SEC. 1101. DISTRIBUTIONS PURSUANT TO BANK HOLDING COMPANY ACT OF 1956.

"(a) DISTRIBUTIONS OF CERTAIN NON-BANKING PROPERTY.—

"(1) DISTRIBUTIONS OF PROHIBITED PROPERTY.—If—

"(A) a qualified bank holding corporation distributes prohibited property (other than stock received in an exchange to which subsection (c) (2) applies)—

"(i) to a shareholder (with respect to its stock held by such shareholder), without the surrender by such shareholder of stock in such corporation; or

"(ii) to a shareholder, in exchange for its preferred stock; or

"(iii) to a security holder, in exchange for its securities; and

"(B) the Board has, before the distribution, certified that the distribution of such prohibited property is necessary

or appropriate to effectuate section 4 of the Bank Holding Company Act of 1956,

then no gain to the shareholder or security holder from the receipt of such property shall be recognized.

"(2) DISTRIBUTIONS OF STOCK AND SECURITIES RECEIVED IN AN EXCHANGE TO WHICH SUBSECTION (c) (2) APPLIES.—If—

"(A) a qualified bank holding corporation distributes—

"(i) common stock received in an exchange to which subsection (c) (2) applies to a shareholder (with respect to its stock held by such shareholder), without the surrender by such shareholder of stock in such corporation; or

"(ii) common stock recived in an exchange to which subsection (c) (2) applies to a shareholder, in exchange for its common stock; or

"(iii) preferred stock or common stock received in an exchange to which subsection (c) (2) applies to a shareholder, in exchange for its preferred stock; or

"(iv) securities or preferred or common stock received in an exchange to which subsection (c) (2) applies to a security holder, in exchange for its securities; and

"(B) any preferred stock received has substantially the same terms as the preferred stock exchange, and any securities received have substantially the same terms as the securities exchanged,

then, except as provided in subsection (f), no gain to the shareholder or security holder from the receipt of such stock or such securities or such stock and securities shall be recognized.

"(3) NON PRO RATA DISTRIBUTIONS.—Paragraphs (1) and (2) shall apply to a distribution whether or not the distribution is pro rata with respect to all of the shareholders of the distributing qualified bank holding corporation.

"(4) EXCEPTION.—This subsection shall not apply to any distribution by a corporation which has made any distribution pursuant to subsection (b).

"(5) DISTRIBUTIONS INVOLVING GIFT OR COMPENSATION.—

"In the case of a distribution to which paragraph (1) or (2) applies, but which

"(A) results in a gift, see section 2501, and following, or

"(B) has the effect of the payment of compensation, see section 61 (a) (1).

"(b) CORPORATION CEASING TO BE A BANK HOLDING COMPANY.—

"(1) DISTRIBUTIONS OF PROPERTY WHICH CAUSE A CORPORATION TO BE A BANK HOLDING COMPANY.—If—

"(A) a qualified bank holding corporation distributes

property (other than stock received in an exchange to which subsection (c) (3) applies)—

"(i) to a shareholder (with respect to its stock held by such shareholder), without the surrender by such shareholder of stock in such corporation; or

"(ii) to a shareholder, in exchange for its preferred stock; or

"(iii) to a security holder, in exchange for its securities; and

"(B) the Board has, before the distribution, certified that—

"(i) such property is all or part of the property by reason of which such corporation controls (within the meaning of section 2 (a) of the Bank Holding Company Act of 1956) a bank or bank holding company, or such property is part of the property by reason of which such corporation did control a bank or a bank holding company before any property of the same kind was distributed under this subsection or exchanged under subsection (c) (3); and

"(ii) the distribution is necessary or appropriate to effectuate the policies of such Act,

then no gain to the shareholder or security holder from the receipt of such property shall be recognized.

"(2) DISTRIBUTIONS OF STOCK AND SECURITIES RECEIVED IN AN EXCHANGE TO WHICH SUBSECTION (c) (3) APPLIES.—If—

"(A) a qualified bank holding corporation distributes—

"(i) common stock received in an exchange to which subsection (c) (3) applies to a shareholder (with respect to its stock held by such shareholder), without the surrender by such shareholder of stock in such corporation; or

"(ii) common stock received in an exchange to which subsection (c) (3) applies to a shareholder, in exchange for its common stock; or

"(iii) preferred stock or common stock received in an exchange to which subsection (c) (3) applies to a shareholder, in exchange for its preferred stock; or

"(iv) securities or preferred or common stock received in an exchange to which subsection (c) (3) applies to a security holder, in exchange for its securities; and

"(B) any preferred stock received has substantially the same terms as the preferred stock exchanged, and any se-

curities received have substantially the same terms as the securities exchanged,

then, except as provided in subsection (f), no gain to the shareholder or security holder from the receipt of such stock or such securities or such stock and securities shall be recognized.

"(3) NON PRO RATA DISTRIBUTIONS.—Paragraphs (1) and (2) shall apply to a distribution whether or not the distribution is pro rata with respect to all of the shareholders of the distributing qualified bank holding corporation.

"(4) EXCEPTION.—This subsection shall not apply to any distribution by a corporation which has made any distribution pursuant to subsection (a).

"(5) DISTRIBUTION INVOLVING GIFT OR COMPENSATION.—

"In the case of a distribution to which paragraph (1) or (2) applies, but which

"(A) results in a gift, see section 2501, and following, or

"(B) has the effect of the payment of compensation, see section 61 (a) (1).

"(c) PROPERTY ACQUIRED AFTER MAY 15, 1955.—

"(1) IN GENERAL.—Except as provided in paragraphs (2) and (3), subsection (a) or (b) shall not apply to—

"(A) any property acquired by the distributing corporation after May 15, 1955, unless (i) gain to such corporation with respect to the receipt of such property was not recognized by reason of subsection (a) or (b), or (ii) such property was received by it in exchange for all of its stock in an exchange to which paragraph (2) or (3) applies, or (iii) such property was acquired by the distributing corporation in a transaction in which gain was not recognized under section 305 (a) or section 332, or under section 354 with respect to a reorganization described in section 368 (a) (1) (E) or (F), or

"(B) any property which was acquired by the distributing corporation in a distribution with respect to stock acquired by such corporation after May 15, 1955, unless such stock was acquired by such corporation (i) in a distribution (with respect to stock held by it on May 15, 1955, or with respect to stock in respect of which all previous applications of this clause are satisfied) with respect to which gain to it was not recognized by reason of subsection (a) or (b), or (ii) in exchange for all of its stock in an exchange to which paragraph (2) or (3) applies, or (iii) in a transaction in which gain was not recognized under section 305 (a) or section 332, or under section 354 with respect to a reorganization described in section 368 (a) (1) (E) or (F), or

"(C) any property acquired by the distributing corporation in a transaction in which gain was not recognized under section 332, unless such property was acquired from a corporation which, if it had been a qualified bank holding corporation, could have distributed such property under subsection (a) (1) or (b) (1).

"(2) EXCHANGES INVOLVING PROHIBITED PROPERTY.—If—

"(A) Any qualified bank holding corporation exchanges (i) property, which, under subsection (a) (1), such corporation could distribute directly to its shareholders or security holders without the recognition of gain to such shareholders or security holders, and other property (except property described in subsection (b) (1) (B) (i)), for (ii) all of the stock of a second corporation created and availed of solely for the purpose of receiving such property;

"(B) immediately after the exchange, the qualified bank holding corporation distributes all of such stock in a manner prescribed in subsection (a) (2) (A); and

"(C) before such exchange, the Board has certified (with respect to the property exchanged which consists of property which, under subsection (a) (1), such corporation could distribute directly to its shareholders or security holders without the recognition of gain) that the exchange and distribution are necessary or appropriate to effectuate section 4 of the Bank Holding Company Act of 1956,

then paragraph (1) shall not apply with respect to such distribution.

"(3) EXCHANGES INVOLVING INTERESTS IN BANKS.—If—

"(A) any qualified bank holding corporation exchanges (i) property which, under subsection (b) (1), such corporation could distribute directly to its shareholders or security holders without the recognition of gain to such shareholders or security holders, and other property (except prohibited property), for (ii) all of the stock of a second corporation created and availed of solely for the purpose of receiving such property;

"(B) immediately after the exchange, the qualified bank holding corporation distributes all of such stock in a manner prescribed in subsection (b) (2) (A); and

"(C) before such exchange, the Board has certified (with respect to the property exchanged which consists of property which, under subsection (b) (1), such corporation could distribute directly to its shareholders or security holders without the recognition of gain) that—

"(i) such property is all or part of the property by reason of which such corporation controls (within the meaning of section 2 (a) of the Bank Holding Company Act of 1956) a bank or bank holding company, or such property is part of the property by reason of which such corporation did control a bank or a bank holding company before any property of the same kind was distributed under subsection (b) (1) or exchanged under this paragraph; and

"(ii) the exchange and distribution are necessary or appropriate to effectuate the policies of such Act,

then paragraph (1) shall not apply with respect to such distribution.

"(d) DISTRIBUTIONS TO AVOID FEDERAL INCOME TAX.—

"(1) PROHIBITED PROPERTY.—Subsection (a) shall not apply to a distribution if, in connection with such distribution, the distributing corporation retains, or transfers after May 15, 1955, to any corporation, property (other than prohibited property) as part of a plan one of the principal purposes of which is the distribution of the earnings and profits of any corporation.

"(2) BANKING PROPERTY.—Subsection (b) shall not apply to a distribution if, in connection with such distribution, the distributing corporation retains, or transfers after May 15, 1955, to any corporation, property (other than property described in subsection (b) (1) (B) (i)) as part of a plan one of the principal purposes of which is the distribution of the earnings and profits of any corporation.

"(3) CERTAIN CONTRIBUTIONS TO CAPITAL.—In the case of a distribution a portion of which is attributable to a transfer which is a contribution to the capital of a corporation, made after May 15, 1955, and prior to the date of the enactment of this part, if subsection (a) or (b) would apply to such distribution but for the fact that, under paragraph (1) or (2) (as the case may be) of this subsection, such contribution to capital is part of a plan one of the prinicpal purposes of which is to distribute the earnings and profits of any corporation, then, notwithstanding paragraph (1) or (2), subsection (a) or (b) (as the case may be) shall apply to that portion of such distribution not attributable to such contribution to capital, and shall not apply to that portion of such distribution attributable to such contribution to capital.

"(e) FINAL CERTIFICATION.—

"(1) FOR SUBSECTION (a).—Subsection (a) shall not apply with respect to any distribution by a corporation unless the Board

certifies that, before the expiration of the period permitted under section 4 (a) of the Bank Holding Company Act of 1956 (including any extensions thereof granted to such corporation under such section 4 (a)), the corporation has disposed of all the property the disposition of which is necessary or appropriate to effectuate section 4 of such Act (or would have been so necessary or appropriate if the corporation had continued to be a bank holding company).

"(2) FOR SUBSECTION (b).—

"(A) Subsection (b) shall not apply with respect to any distribution by any corporation unless the Board certifies that before the expiration of the period specified in subparagraph (B), the corporation has ceased to be a bank holding company.

"(B) The period referred to in subparagraph (A) is the period which expires 2 years after the date of the enactment of this part or 2 years after the date on which the corporation becomes a bank holding company, whichever date is later. The Board is authorized, on application by any corporation, to extend such period from time to time with respect to such corporation for not more than one year at a time if, in its judgment, such an extension would not be detrimental to the public interest; except that such period may not in any case be extended beyond the date 5 years after the date of the enactment of this part or 5 years after the date on which the corporation becomes a bank holding company, whichever date is later.

"(f) CERTAIN EXCHANGES OF SECURITIES.—In the case of an exchanged described in subsection (a) (2) (A) (iv) or subsection (b) (2) (A) (iv), subsection (a) or subsection (b) (as the case may be) shall apply only to the extent that the principal amount of the securities received does not exceed the principal amount of the securities exchanged.

[26 U.S.C. 1101.]

"SEC. 1102. SPECIAL RULES.

"(a) BASIS OF PROPERTY ACQUIRED IN DISTRIBUTIONS.—If, by reason of section 1101, gain is not recognized with respect to the receipt of any property, then, under regulations prescribed by the Secretary or his delegate—

"(1) if the property is received by a shareholder with respect to stock, without the surrender by such shareholder of stock, the basis of the property received and of the stock with respect to which it is distributed shall, in the distributee's hands, be deter-

mined by allocating between such property and such stock the adjusted basis of such stock; or

"(2) if the property is received by a shareholder in exchange for stock or by a security holder in exchange for securities, the basis of the property received shall, in the distributee's hands, be the same as the adjusted basis of the stock or securities exchanged, increased by—

"(A) the amount of the property received which was treated as a dividend, and

"(B) the amount of gain to the taxpayer recognized on the property received (not including any portion of such gain which was treated as a dividend).

"(b) PERIODS OF LIMITATION.—The periods of limitation provided in section 6501 (relating to limitations on assessment and collection) shall not expire, with respect to any deficiency (including interest and additions to the tax) resulting solely from the receipt of property by shareholders in a distribution which is certified by the Board under subsection (a), (b), or (c) of section 1101, until five years after the distributing corporation notifies the Secretary or his delegate (in such manner and with such accompanying information as the Secretary or his delegate may by regulations prescribe) that the period (including extensions thereof) prescribed in section 4 (a) of the Bank Holding Company Act of 1956, or section 1101 (e) (2) (B), whichever is applicable, has expired; and such assessment may be made notwithstanding any provision of law or rule of law which would otherwise prevent such assessment.

"(c) ALLOCATION OF EARNINGS AND PROFITS.—

"(1) DISTRIBUTION OF STOCK IN A CONTROLLED CORPORATION.—In the case of a distribution by a qualified bank holding corporation under section 1101 (a) (1) or (b) (1) of stock in a controlled corporation, proper allocation with respect to the earnings and profits of the distributing corporation and the controlled corporation shall be made under regulations prescribed by the Secretary or his delegate.

"(2) EXCHANGES DESCRIBED IN SECTION 1101 (c) (2) or (3).—In the case of any exchange described in section 1101 (c) (2) or (3), proper allocation with respect to the earnings and profits of the corporation transferring the property and the corporation receiving such property shall be made under regulations prescribed by the Secretary or his delegate.

"(3) DEFINITION OF CONTROLLED CORPORATION.—For purposes of paragraph (1), the term 'controlled corporation' means a corporation with respect to which at least 80 per cent of the

total combined voting power of all classes of stock entitled to vote and at least 80 per cent of the total number of shares of all other classes of stock is owned by the distributing qualified bank holding corporation.

"(d) ITEMIZATION OF PROPERTY.—In any certification under this part, the Board shall make such specification and itemization of property as may be necessary to carry out the provisions of this part.

[26 U.S.C. 1102.]

"SEC. 1103. DEFINITIONS.

"(a) BANK HOLDING COMPANY.—For purposes of this part, the term 'bank holding company' has the meaning assigned to such term by section 2 of the Bank Holding Company Act of 1956.

"(b) QUALIFIED BANK HOLDING CORPORATION.—

"(1) IN GENERAL.—Except as provided in paragraph (2), for purposes of this part the term 'qualified bank holding corporation' means any corporation (as defined in section 7701 (a) (3)) which is a bank holding company and which holds prohibited property acquired by it—

"(A) on or before May 15, 1955,

"(B) in a distribution in which gain to such corporation with respect to the receipt of such property was not recognized by reason of subsection (a) or (b) of section 1101, or

"(C) in exchange for all of its stock in an exchange described in section 1101 (c) (2) or (c) (3).

"(2) LIMITATIONS.—

"(A) A bank holding company shall not be a qualified bank holding corporation, unless it would have been a bank holding company on May 15, 1955, if the Bank Holding Company Act of 1956 had been in effect on such date, or unless it is a bank holding company determined solely by reference to—

"(i) property acquired by it on or before May 15, 1955,

"(ii) property acquired by it in a distribution in which gain to such corporation with respect to the receipt of such property was not recognized by reason of subsection (a) or (b) of section 1101, and

"(iii) property acquired by it in exchange for all of its stock in an exchange described in section 1101 (c) (2) or (3).

"(B) A bank holding company shall not be a qualified bank holding corporation by reason of property described in subparagraph (B) of paragraph (1) or clause (ii) of

subparagraph (A) of this paragraph, unless such property was acquired in a distribution with respect to stock, which stock was acquired by such bank holding company—

"(i) on or before May 15, 1955,

"(ii) in a distribution (with respect to stock held by it on May 15, 1955, or with respect to stock in respect of which all previous applications of this clause are satisfied) with respect to which gain to it was not recognized by reason of subsection (a) or (b) of section 1101, or

"(iii) in exchange for all of its stock in an exchange described in section 1101 (c) (2) or (3).

"(C) A corporation shall be treated as a qualified bank holding corporation only if the Board certifies that it satisfies the foregoing requirements of this subsection.

"(c) PROHIBITED PROPERTY.—For purposes of this part, the term 'prohibited property' means, in the case of any bank holding company, property (other than nonexempt property) the disposition of which would be necessary or appropriate to effectuate section 4 of the Bank Holding Company Act of 1956 if such company continued to be a bank holding company beyond the period (including any extensions thereof) specified in subsection (a) of such section or in section 1101 (e) (2) (B) of this part, as the case may be. The term 'prohibited property' does not include shares of any company held by a bank holding company to the extent that the prohibitions of section 4 of the Bank Holding Company Act of 1956 do not apply to the ownership by such bank holding company of such property by reason of subsection (c) (5) of such section.

"(d) NONEXEMPT PROPERTY.—For purposes of this part, the term 'nonexempt property' means—

"(1) obligations (including notes, drafts, bills of exchange, and bankers' acceptances) having a maturity at the time of issuance of not exceeding 24 months, exclusive of days of grace;

"(2) securities issued by or guaranteed as to principal or interest by a government or subdivision thereof or by any instrumentality of a government or subdivision; or

"(3) money, and the right to receive money not evidenced by a security or obligation (other than a security or obligation described in paragraph (1) or (2)).

"(e) BOARD.—For purposes of this part, the term 'Board' means the Board of Governors of the Federal Reserve System."

(b) The table of parts for subchapter O of chapter 1 of the Internal

Revenue Code of 1954 is amended by adding at the end thereof the following:

"Part VIII. Distributions pursuant to Bank Holding Company Act of 1956."

(c) The amendments made by this section shall apply with respect to taxable years ending after the date of the enactment of this Act.

[26 U.S.C. 1103.]

SAVING PROVISION

SEC. 11. Nothing herein contained shall be interpreted or construed as approving any act, action, or conduct which is or has been or may be in violation of existing law, nor shall anything herein contained constitute a defense to any action, suit, or proceeding pending or hereafter instituted on account of any prohibited antitrust or monopolistic act, action, or conduct.

[12 U.S.C. 1841 (note).]

SEPARABILITY OF PROVISIONS

SEC. 12. If any provision of this Act, or the application of such provision to any person or circumstance, shall be held invalid, the remainder of the Act, and the application of such provision to persons or circumstances other than those to which it is held invalid, shall not be affected thereby.

[12 U.S.C. 1841 (note).]