

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 72-136
July 3, 1972

AMENDMENT TO REGULATION Y
(Investment or Financial Adviser Activity)

MANAGEMENT CONSULTING ACTIVITY DENIED

To All Banks, Bank Holding Companies and Others
Concerned in the Eleventh Federal Reserve District:

On June 6, 1972, the Board of Governors of the Federal Reserve System announced its denial of applications from two bank holding companies to acquire firms that engage in management consulting activities. At the same time, the Board decided not to include management consulting on its list of activities in which bank holding companies may engage.

The Board had previously indicated that acting as a management consultant was not within the scope of the activities authorized to be conducted by bank holding companies under Section 4(c)(8) of the Bank Holding Company Act and that it was then considering whether to expand its list of activities to include management consulting.

In a related action, the Board adopted a clarifying amendment to Regulation Y which authorizes bank holding companies to act "as investment or financial adviser".

A copy of the amendment is printed on the reverse.

Yours very truly,

P. E. Coldwell,

President

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BANK HOLDING COMPANIES

AMENDMENT TO REGULATION Y †

Effective June 6, 1972, section 225.4(a)(5) is amended to read as follows.

SECTION 225.4—NONBANKING ACTIVITIES

(a) **Activities closely related to banking or managing or controlling banks.** * * * The following activities have been determined by the Board to be so closely related to banking or managing or controlling banks as to be a proper incident thereto:

* * * * *

(5) acting as investment or financial adviser to the extent of (i) serving as the advisory company for a mortgage or a real estate investment trust; (ii) serving as investment adviser, as defined in section 2(a)(20) of the Investment Company Act of 1940, to an investment company registered under that Act; (iii) providing portfolio investment advice¹ to any other person; (iv) furnishing general economic information and advice, general economic statistical forecasting services and industry studies;² and (v) providing financial advice to State and local governments, such as with respect to the issuance of their securities;

¹ The term "portfolio investment" as used herein is intended to refer generally to the investment of funds in a "security" as defined in section 2(1) of the Securities Act of 1933 (15 U.S.C. § 77a) or in real property interests, except where the real property is to be used in the trade or business of the person being advised. In furnishing portfolio investment advice, bank holding companies and their subsidiaries shall observe the standards of care and conduct applicable to fiduciaries.

² This is to be contrasted with "management consulting" which the Board views as including, but not limited to, the provision of analysis or advice as to a firm's (i) purchasing operations, such as inventory control, sources of supply, and cost minimization subject to constraints; (ii) production operations, such as quality control, work measurement, product methods, scheduling shifts, time and motion studies,

and safety standards; (iii) marketing operations, such as market testing, advertising programs, market development, packaging, and brand development; (iv) planning operations, such as demand and cost projections, plant location, program planning, corporate acquisitions and mergers, and determination of long-term and short-term goals; (v) personnel operations, such as recruitment, training, incentive programs, employee compensation, and management-personnel relations; (vi) internal operations, such as taxes, corporate organization, budgeting systems, budget control, data processing systems evaluation, and efficiency evaluation; or (vii) research operations, such as product development, basic research, and product design and innovation. The Board has determined that "management consulting" is not an activity that is so closely related to banking or managing or controlling banks as to be a proper incident thereto.

† For this Regulation to be complete as amended effective June 6, 1972, retain:

- 1) Printed Regulation pamphlet as amended effective December 1, 1971.
- 2) This slip sheet.

NOTE.—As an incident to the amendment effective June 6, 1972, footnote 1 in § 225.4(b)(1) and footnote 2 in § 225.4(d) are redesignated footnotes 3 and 4, respectively, and the footnotes denoted by two asterisks (**) and by three asterisks (***) are deleted.