

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 73-294
November 20, 1973

AMENDMENT AND INTERPRETATION TO REGULATION Y (Adding Courier Services to the List of Permissible Activities for Bank Holding Companies)

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

As announced in our Circular No. 71-284, dated November 29, 1971, the Board of Governors of the Federal Reserve System proposed an amendment to Section 225.4(a) of Regulation Y which would permit bank holding companies to engage in armored car or courier services.

The Board of Governors of the Federal Reserve System has announced amendment to Regulation Y, effective November 15, 1973, by adding subparagraph (11) to Section 225.4(a) which permits bank holding companies to engage in the courier service business under an extensive set of limitations and conditions designed to enhance competition and insure other public benefits.

The Board accompanies its ruling regarding courier services with an interpretation regarding the scope of courier activities the Board intends to permit and set forth three principles that should be followed to insure maintenance of competition among couriers.

Enclosed is a copy of the amendment and the Board's interpretation of the amendment.

At the same time, the Board announced that with respect to armored car services, it finds the hearing record inconclusive and is consequently taking no action on this proposed activity.

Together with its decisions, the Board issued a 14-page statement summarizing the record compiled from extensive proceedings over the past two years, including hearings and a Hearing Officer's recommendations, on which the Board based its decisions. The statement also included a record of the Board's procedural rulings and the

conclusions reached in deciding that courier services are closely related to banking. Upon request, a copy of this statement can be obtained. Please mail all requests to:

Regulations Department
Federal Reserve Bank of Dallas
Station K
Dallas, Texas 75222

Yours very truly,

P. E. Coldwell,
President

Enclosures

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BANK HOLDING COMPANIES

AMENDMENT TO REGULATION Y †

Effective November 15, 1973, section 225.4(a) is amended by adding subparagraph (11) as set forth below:

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:

* * * * *

(11) providing courier services (i) for the internal operations of the holding company and

its subsidiaries; (ii) for checks, commercial papers, documents, and written instruments (excluding currency or bearer-type negotiable instruments) as are exchanged among banks and banking institutions; (iii) for audit and accounting media of a banking or financial nature and other business records and documents used in processing such media.^{3a}

* * * * *

^{3a} Applications to engage **de novo** in providing courier services should be filed in accordance with the procedures of § 225.4(b) (2) rather than § 225.4(b) (1). See also the Board's interpretation on courier activities (12 CFR 225.129), which sets forth conditions for holding company entry **pursuant to § 4(c) (8)**.

† For this Regulation to be complete as amended effective November 15, 1973, retain:

- 1) Printed Regulation pamphlet as amended effective December 1, 1971.
- 2) Amendment effective June 6, 1972.
- 3) Amendment effective December 11, 1972.
- 4) This slip sheet.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BANK HOLDING COMPANIES

INTERPRETATION OF REGULATION Y

§ 225.129 Activities closely related to banking.

Courier activities. The Board's amendment of § 225.4(a), which adds courier services to the list of closely related activities is intended to permit holding companies to transport time critical materials of limited intrinsic value of the types utilized by banks and bank-related firms in performing their business activities. Such transportation activities are of particular importance in the check clearing process of the banking system, but are also important to the performance of other activities, including the processing of financially-related economic data. The authority is not intended to permit holding companies to engage generally in the provision of transportation services. However, the furnishing of courier services for nonfinancially-related material upon the specific, unsolicited request of a third party when courier services are not otherwise reasonably available may be regarded as an incidental activity of a bank-related courier.

During the course of the Board's proceedings pertaining to courier services, objections were made that courier activities were not a proper incident to banking because of the possibility that holding companies would or had engaged in unfair competitive practices. The Board believes that adherence to the following principles will eliminate or reduce to an insignificant degree any possibility of unfair competition:

- a. A holding company courier subsidiary established under § 4(c) (8) should be a separate, independent corporate entity, not merely a servicing arm of a bank.
- b. As such, the subsidiary should exist as a separate, profit-oriented operation and should not be subsidized by the holding company system.
- c. Services performed should be explicitly priced, and shall not be paid for indirectly, for example, on the basis of deposits main-

tained at or loan arrangements with affiliated banks.

Accordingly, entry of holding companies into courier activities on the basis of § 4(c)(8) will be conditioned as follows:

1. **The courier subsidiary shall perform services on an explicit fee basis and shall be structured as an individual profit center designed to be operated on a profitable basis.** The Board may regard operating losses sustained over an extended period as being inconsistent with continued authority to engage in courier activities.
2. **Courier services performed on behalf of an affiliate's customer (such as the carriage of incoming cash letters) shall be paid for by the customer. Such payments shall not be made indirectly, for example, on the basis of imputed earnings on deposits maintained at or of loan arrangements with subsidiaries of the holding company.**

Concern has also been expressed that bank-affiliated courier services will be utilized to gain a competitive advantage over firms competing with other holding company affiliates. To reduce the possibility that courier affiliates might be so employed, the Board will impose the following third condition:

3. **The courier subsidiary shall, when requested by any bank or any data processing firm providing financially-related data processing services which firm competes with a banking or data processing subsidiary of Applicant, furnish comparable service at comparable rates, unless compliance with such request would be beyond the courier subsidiary's practical capacity.** In this regard, the courier subsidiary should make known to the public its minimum rate schedule for services and its general pricing policies thereto. The courier subsidiary is also expected to maintain for a reasonable period of time (not less than two years) each request denied with the reasons for such denial.