



American Revolution Bicentennial

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 75-123

August 22, 1975

AMENDMENT TO
INTERPRETATION OF REGULATION Y

TO ALL BANKS, BANK HOLDING COMPANIES,
AND OTHERS CONCERNED IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

As a result of a recent decision of the United States Court of Appeals for the District of Columbia, a sentence in the Interpretation of Regulation Y, dated November 15, 1973, issued by the Board of Governors of the Federal Reserve System regarding courier activities of bank holding companies, has been deleted. The deleted sentence reads as follows:

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.

This Interpretation was amended by the Board of Governors effective August 11, 1975. A copy of the amended interpretation is printed on the reverse of this circular. Additional copies will be furnished upon request to the Secretary's Office of this Bank.

Sincerely yours,

T. W. Plant

First Vice President

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BANK HOLDING COMPANIES

AMENDMENT TO INTERPRETATION OF REGULATION Y

SECTION 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.

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 maintained 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.