



American Revolution Bicentennial

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 76-62
April 22, 1976

AMENDMENT TO REGULATION Y

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

Effective May 15, 1976, the Board of Governors of the Federal Reserve System added a Corporate Practices section to Regulation Y. The amendment, which added Section 225.6, Subsection (a), requires prior notification by bank holding companies planning to purchase their own stock in two particular circumstances.

The purpose of the amendment is to assist the Board in supervising bank holding companies by requiring 45 days advance notice of redemptions of bank holding company stock that could have a significant impact on the company's capital structure.

In particular, the amendment is intended to deter the practice known as "bootstrapping"--whereby a holding company incurs substantial debt to purchase or redeem its own outstanding stock, generally to help a shareholder or shareholder group gain control of a company.

A proposal to require prior notification was issued for comment by the Board last December 11, and the final amendment includes the following two principal changes from the earlier proposal:

- The period for prior notification was shortened from 60 days to 45 days.
- The threshold requirement for notification, in the amendment as adopted, makes prior notification necessary when the gross consideration in the transaction equals 10 percent or more of the company's net worth, or, when the current transaction combined with the net consideration for similar transactions during the past 12 months (previously 5 years) aggregates 10 percent (previously 25 percent) of the company's net worth.

Enclosed is a copy of the amendment to Regulation Y, which should be inserted in your Regulations Binder. Please direct any questions to this Bank's Regulation Department at (214) 651-6169.

Additional copies of the amendment to Regulation Y will be furnished upon request to the Secretary's Office of this Bank.

Sincerely yours,

T. W. Plant

First Vice President

Enclosure

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BANK HOLDING COMPANIES

AMENDMENT TO REGULATION Y†

Effective May 15, 1976, Regulation Y is amended by adding a new section (225.6) as follows:

SECTION 225.6 — CORPORATE PRACTICES

(a) **Purchase or redemption by a bank holding company of its own shares.** No bank holding company shall purchase or redeem any shares of any class of its outstanding equity securities without giving at least 45 days prior notice thereof to its Federal Reserve Bank if (i) the gross consideration to be paid for such purchase or redemption is equal to 10 percent or more of the company's consolidated net worth as of the date of notification, or (ii) the gross consideration to be paid for such purchase or redemption when aggregated with the net consideration paid by the company for all purchases or redemptions of its equity securities during the 12 months preceding the date of notification¹⁸ equals or exceeds 10 percent of the company's consolidated net worth as of the date of such notice. The 45-day period shall begin to run from the date such notice is received by the Reserve Bank, which shall promptly acknowledge receipt thereof in writing.

Each notice filed hereunder shall furnish the following information:

(1) The title of the security to be purchased or redeemed, and the purposes of the proposed transaction;

(2) The number of shares of that security to be purchased or redeemed; the total number of shares of equity securities outstanding as of the date of the notice, by class; and the number of shares of all other equity securities of the company purchased or redeemed by it over the preceding 12-month period, by class;

(3) The consideration to be paid for the shares to be purchased or redeemed, and the consideration paid for all other shares of the company's equity securities purchased or redeemed by it over the preceding 12-month period, by class;

(4) The date upon which, or that period of time during which, the purchase or redemption will occur;

(5) If known, the names of persons from whom shares are to be purchased or redeemed in such transaction, and, if known, the names of persons from whom shares were purchased or redeemed in the preceding 12 months;

(6) If debt is to be incurred or has been incurred by the company or a subsidiary in connection with the purchase or redemption or any other such purchase or redemption over the preceding 12 months, a description of the terms of the debt, including the identity of the obligee, and the interest rate, maturity, and repayment schedule of the debt;

(7) If the transaction is related in any way to a transfer of control of the company, a description of the terms of the transfer, including the identity of the transferee and a copy of any agreements relating to such transfer; and

(8) A current and pro forma consolidated balance sheet of the holding company.

The Reserve Bank may permit a purchase or redemption to be accomplished prior to the expiration of the 45-day period if it determines that the repurchase or redemption would not constitute an unsafe or unsound practice and would not violate any applicable law, rule, regulation or order, or any condition imposed by, or written agreement with, the Board.

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Effective date. This amendment is effective May 15, 1976, and shall be applicable to all transactions occurring after that date for which prior notice is required under this amendment. Such notice may be given prior to the effective date with respect to a transaction proposed to be consummated within 45 days after the effective date. Any company that prior to the effective date has completed plans to effect a transaction that would be covered by this amendment, but as to which there may be insufficient time to provide 45 days prior notice, may request accelerated consideration of the transaction by its Federal Reserve Bank.

†For this Regulation to be complete as amended effective May 15, 1976, retain:

- 1) Printed Regulation Y pamphlet as amended effective June 24, 1974;
- 2) Technical corrections in Regulation Y pamphlet covering Sections 225.3 and 225.4;
- 3) Amendment effective December 1, 1975, Section 225.5(c); and
- 4) This slip sheet.

¹⁸For the purposes of this regulation "net consideration" is the gross consideration paid by the company for all of its equity securities purchased or redeemed during the period minus the gross consideration received for all of its equity securities sold during the period other than as part of a new issue.