

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 1276]
[September 6, 1933]

Regulation Issued by Federal Reserve Board Relating to
Holding Company Affiliates—Voting Permits

*To all Member Banks in the
Second Federal Reserve District:*

For your information we transmit herewith copy of the Federal Reserve Board's Regulation P, Series of 1933, which relates to voting permits of holding company affiliates. The regulation was approved by the Board on August 4, 1933, and became effective immediately.

GEORGE L. HARRISON,
Governor.

FEDERAL RESERVE BOARD

**HOLDING COMPANY AFFILIATES
VOTING PERMITS**



REGULATION P

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REGULATION P, SERIES OF 1933

HOLDING COMPANY AFFILIATES—VOTING PERMITS

SECTION I. STATUTORY PROVISIONS

Section 2 of the Banking Act of 1933 provides, in part, as follows:

(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.

Section 9 of the Federal Reserve Act, as amended by section 5 (c) of the Banking Act of 1933, 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 Federal Reserve Board 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 Federal Reserve Board. 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 Federal Reserve Board 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 Federal Reserve Board shall have revoked the voting permit of any such holding company affiliate, the Federal Reserve Board 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 5144 of the Revised Statutes of the United States, as amended by section 19 of the Banking Act of 1933, reads as follows:

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 (1) that shares of its own stock held by a national bank as sole trustee shall not be voted, and shares of its own stock held by a national bank and one or more persons as trustees may be voted by such other person or persons, as trustees, in the same manner as if he or they were the sole trustee, and (2) shares controlled by any holding company affiliate of a national bank 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. Shareholders may vote by proxies duly authorized in writing; but no officer, clerk, teller, or book-keeper of such bank shall act as proxy; and no shareholder whose liability is past due and unpaid shall be allowed to vote.

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.

Any such holding company affiliate may make application to the Federal Reserve Board for a voting permit entitling it to cast one vote at all elections of directors and in deciding all questions at meetings of shareholders of such bank on each share of stock controlled by it 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 Federal Reserve Board 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:

(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;

(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 Federal Reserve Board may by regulation prescribe;

(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 5209 of the Revised Statutes, as amended (U.S.C., title 12, sec. 592); and

(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.

If at any time it shall appear to the Federal Reserve 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 this section, the Federal Reserve Board 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 Federal Reserve Board 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 Federal Reserve Board 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 Federal Reserve Board, be subject to forfeiture in accordance with section 2 of the Federal Reserve Act, as amended.

SECTION II. DEFINITIONS

(a) **Holding company affiliate.**—The term “holding company affiliate” includes any corporation, business trust, association, or other similar organization—

(1) which owns or controls, directly or indirectly, a majority of the shares of capital stock of a member bank; or

(2) which owns or controls, directly or indirectly, more than 50 per centum of the number of shares voted for the election of directors of any member bank at the preceding election; or

(3) which controls in any manner the election of a majority of the directors of any member bank; or

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

(b) **Member bank.**—The term “member bank”, unless otherwise qualified, means any national bank, or any 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.

(c) **Nonmember bank.**—The term “nonmember bank” includes any banking institution which is not a member of the Federal Reserve System.

(d) **Shares controlled.**—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 if they are held by any trustee for the benefit of the shareholders or members of such holding company affiliate.

(e) **Subsidiary.**—The term “subsidiary” includes any national bank, or any State bank, savings bank, trust company, Morris Plan bank, mutual savings bank, private bank, mortgage loan company, title company, safe deposit company, insurance company, or any other organization of any kind whatsoever engaged in any kind of business whatsoever—

(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

(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.

(f) **Subsidiary member bank.**—The term “subsidiary member bank” includes any member bank which is affiliated with a holding company affiliate in any manner set forth in subdivision (e) of this section.

(g) **Subsidiary nonmember bank.**—The term “subsidiary nonmember bank” includes any banking institution, other than a member bank, which is affiliated with any corporation, business trust, association, or other similar organization in any manner set forth in subdivision (e) of this section.

(h) **Affiliate.**—The term “affiliate” includes any corporation, business trust, association, or other similar organization—

(1) Of which a member bank, directly or indirectly, owns or controls a majority of the voting shares; or

(2) Of which a member bank, directly or indirectly, owns or controls more than 50 per centum of the number of shares voted for the election of any such organization’s directors, trustees, or other persons exercising similar functions at the preceding election; or

(3) Of which a member bank controls in any manner the election of a majority of any such organization’s directors, trustees, or other persons exercising similar functions; or

(4) 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 a majority of the shares of such bank; or

(5) 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 more than 50 per centum of the number of shares voted for the election of directors of such bank at the preceding election; or

(6) Of which control is held, directly or indirectly, through stock ownership or in any other manner, by trustees for the benefit of the shareholders of any member bank; or

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

(i) **When deemed affiliated.**—A corporation, business trust, association, partnership or other organization of any kind whatsoever, shall be “deemed to be affiliated” with another such organization if it is affiliated with such other organization in any manner set forth in subdivision (e) or subdivision (h) of this section.

(j) **Securities company.**—The term “securities company” means 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.

(k) **Board.**—The term “Board” means the Federal Reserve Board.

SECTION III. REQUIREMENTS IN RESPECT TO STATE MEMBER BANK'S OBTAINING AND FILING WITH BOARD AGREEMENT BY HOLDING COMPANY AFFILIATE, AND EFFECT OF FAILURE TO OBTAIN SUCH AGREEMENT

On or before October 1, 1933, each State member bank which is a subsidiary of a holding company affiliate shall obtain from such holding company affiliate an agreement, on F.R.B. Form P-5, which is hereby made a part of this regulation, that such holding company affiliate will 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. Every State member bank which hereafter becomes a subsidiary of any holding company affiliate shall obtain from such holding company affiliate a like agreement within 90 days after such member bank shall have become a subsidiary thereof.

Upon the failure of a State member bank which is now or becomes hereafter a subsidiary of a holding company affiliate to obtain the requisite agreement within the time prescribed, the Board will 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.

Any State banking institution applying for membership in the Federal Reserve System which is a subsidiary of any corporation, business trust, association, or other similar organization, will be required to obtain an agreement from each such organization with

which it is so affiliated on F.R.B. Form P-6, which is hereby made a part of this regulation, and the application of such organization for a voting permit must be approved by the Board before such banking institution will be admitted to membership.

The original and one copy of each such agreement must be filed promptly with the Federal Reserve Agent of the district in which the applicant's principal office is located, and the original of such agreement shall be sent by such Federal Reserve Agent to the Board.

SECTION IV. NECESSITY FOR OBTAINING VOTING PERMITS

No holding company affiliate of a national bank, and no holding company affiliate of a State member bank which has executed an agreement such as that required by section III of this regulation, may lawfully vote any share of stock in any such bank with which it is so affiliated unless such holding company affiliate shall have first obtained a voting permit which is in force at the time such shares are voted, and before voting any such stock, each such holding company affiliate must obtain a voting permit pursuant to the provisions of section 5144, Revised Statutes, as amended, and of this regulation.

No State banking institution applying for membership in the Federal Reserve System which is a subsidiary of any corporation, business trust, association, or other similar organization, will be admitted to membership in the Federal Reserve System until the application for a voting permit of each organization of which such banking institution is a subsidiary has been approved by the Board.

SECTION V. APPLICATION FOR VOTING PERMIT

Any holding company affiliate of a member bank, and any organization affiliated in any manner described in subdivision (a) of section II of this regulation with a nonmember bank applying for membership in the Federal Reserve System, may make application for a voting permit entitling it to cast one vote on each share of stock controlled by it at all elections of directors and in deciding all questions at meetings of shareholders of each of its subsidiary member banks. In the event that the stock is held by a trustee, or trustees, for the benefit of a holding company affiliate or of its shareholders or members, the permit may authorize such trustee or trustees so to vote the same, except that no such permit to vote shares of stock of a national banking association held by it as sole trustee will be granted.

Each application must be submitted on F.R.B. Form P-1, which is made a part of this regulation. It is necessary for an applicant hereunder to file only one application, notwithstanding that such ap-

plicant may own or control more than one subsidiary member bank. However, a separate agreement on F.R.B. Form P-3 to permit examinations and furnish reports of condition must be filed by each organization (other than a member bank) with which the applicant or any of its subsidiaries is affiliated (including a similar and separate agreement by each of applicant's subsidiary nonmember banks, notwithstanding that any or all of such subsidiary nonmember banks may also be applying for membership in the System).

In preparing the application, all forms (except signatures of persons executing same) should be filled out by typewriter. The original and two executed counterparts of the application must be sent to the Federal Reserve Agent of the district in which the applicant's principal office is located, and if any subsidiary member bank or subsidiary nonmember bank applying for membership is situated in any district other than that in which the applicant's principal office is located, a copy of the application must be filed with the Federal Reserve Agent of each such other district.

The Federal Reserve Agent of the district in which the applicant's principal office is located will forward the original and one executed counterpart of such application to the Board with his recommendation and that of the executive committee of the Federal Reserve bank of such district. The Federal Reserve Agent 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 in his district.

SECTION VI. INFORMATION AND DOCUMENTS TO BE FILED WITH APPLICATION

The statute vests in the Board discretionary authority to grant or withhold any voting permit applied for as the public interest may require. In acting upon each 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 subsidiary member bank. In order that the Board may give adequate consideration to these subjects, each applicant for a voting permit must furnish with its application the following information and documents:

- (1) Names and addresses of all subsidiary member banks.
- (2) Certified copy of charter or articles of association and by-laws of applicant, with all amendments to date.
- (3) Statement of financial condition of applicant, as of date of application, including detailed list of investments.

(4) Copy of report of last audit of applicant by an independent auditor or auditors, if any.

(5) Detailed statement in regard to management and personnel of applicant, including list of directors and principal officers and stockholders, and their principal business interests.

(6) List of all of applicant's subsidiaries and all other corporations, business trusts, associations, or other similar organizations with which applicant or any of its subsidiaries is affiliated, with description of their functions, and detailed statement of relations of applicant with each such organization.

(7) Statement of financial condition of each subsidiary member bank, as of a date not in excess of 60 days prior to date of application.

(8) Copy of report of last examination, if any, by State authorities of each of applicant's subsidiaries and of each other corporation, business trust, association, or other similar organization with which applicant or any of its subsidiaries is affiliated (other than a member bank).

(9) Copy of report of last examination, if any, by applicant of each of its subsidiaries and of each other corporation, business trust, association, or other similar organization with which applicant or any of its subsidiaries is affiliated.

(10) Detailed statement of any plan of reorganization involving any subsidiary or any other corporation, business trust, association, or other similar organization with which applicant or any of its subsidiaries is affiliated, effected since last examination of any such organization, and of any such reorganization proposed or pending.

(11) Agreements by subsidiary nonmember banks and affiliated organizations (other than member banks) to submit to examination and furnish reports of condition (F.R.B. Form P-3).

(12) Statement as to whether any certificate representing stock of applicant represents stock of any other corporation, and whether ownership, sale, or transfer of any certificate representing the stock of applicant is conditioned in any manner whatsoever upon the ownership, sale, or transfer of a certificate representing the stock of any other corporation. If so, information as to manner in which the ownership, sale, or transfer of a certificate representing stock in applicant affects the ownership, sale, or transfer of a certificate representing stock in such other corporation.

(13) Statement as to whether applicant owns, controls, or has any interest in, and whether it is participating in the management or direction of, any securities company.

SECTION VII. REQUIREMENTS REGARDING EXHIBITS D, G, AND H

(a) **Statement of financial condition of applicant.**—There must be attached to each application for a voting permit, as exhibit D, a statement of the financial condition of the applicant as of the date of the application. This statement must be taken from the books of the applicant, must show each control account separately, and must give detailed information in respect to the following:

(1) Loans, extensions of credit, and advances in any form (including repurchase agreements and securities loaned) by each subsidiary bank to applicant, the amounts, forms, and maturity dates thereof, the interest rates thereon, and the collateral pledged therefor.

(2) Investments of applicant in capital stock of each subsidiary bank and each other organization with which applicant or any of its subsidiaries is affiliated, the number of shares of stock of each such affiliated organization authorized and outstanding, the par and book value thereof, and the number of shares pledged, if any.

(3) Other investments—

(i) Bonds—Names of obligors, par value, book value, interest rate, maturity, and bonds pledged, if any.

(ii) Stocks—Number of shares, par value, book value, class of stock, and stocks pledged, if any.

(4) Capital stock of applicant, classes of such stock, number of shares authorized and outstanding in each class, the par value thereof, and any options or stock purchase warrants outstanding.

(5) Accounts due to and from each subsidiary and each affiliate of applicant or of any of its subsidiaries.

(6) Detailed list of any and all contingent liabilities of applicant.

(b) **Statement of relationship of applicant to subsidiaries and affiliated organizations.**—There must also be attached to each application for a voting permit, as exhibit G, a list of all of the applicant's subsidiaries and all other organizations with which the applicant or any of its subsidiaries is affiliated, with a description of their functions, and a detailed statement of the relationship of the applicant to its subsidiaries and to any and all other organizations with which the applicant or any of its subsidiaries is affiliated. Among other things, this statement must set forth:

(1) The total number of shares of capital stock of each subsidiary and each other affiliated organization authorized and outstanding;

(2) The number of shares owned or controlled by applicant, or held by any trustee for the benefit of the shareholders or members thereof;

(3) The form of control, whether sole or joint;

(4) The manner in which, and object for which, control was established and is maintained;

(5) The extent of control;

(6) Whether control is direct or indirect; and

(7) The names of the intermediaries through which control, if indirect, was established and is maintained.

If control is held through any trustee, there should be attached to exhibit G a copy of the agreement creating the trust and a copy of each other instrument directly affecting the trust; and the exhibit must set forth, in addition to the information required above:

(1) The name of such trustee or trustees;

(2) The names of the beneficiaries for whom the trust is maintained; and

(3) The purpose of the trust.

(c) **Statement of financial condition of each subsidiary member bank.**—There must be attached to the application, as exhibit H, a statement of the financial condition of each subsidiary member bank as of a date not in excess of 60 days prior to the date of application. Such statement must be taken from the books of the bank, and must be supplemented by full and complete information in respect to:

(1) Funds of each subsidiary member bank invested in capital stock, bonds, debentures, or other such obligations of applicant, or of any subsidiary of applicant, or of any other organization with which applicant or any of its subsidiaries is affiliated.

(2) Loans, advances, or extensions of credit made to any person, partnership, association, business trust, corporation, or other organization against the capital stock, bonds, debentures, or other obligations of applicant, or of any subsidiary of applicant, or of any other organization with which applicant or any of the subsidiaries is affiliated.

(3) Balances "due to" and "due from" each subsidiary of applicant and each other organization with which applicant or any of its subsidiaries is affiliated.

If a subsidiary member bank of the applicant is exercising fiduciary powers, a supplementary statement must be attached to exhibit H, which statement must set forth the amount of capital stock, bonds, debentures or other obligations of, or guaranteed by, the applicant or any subsidiary or other organization with which the applicant or any of its subsidiaries is affiliated, which have been purchased for

account of any of the trusts held in the trust department of such subsidiary member bank. This supplementary statement must set forth the name of the trust, the amount of the corpus thereof, and the amount invested in such capital stock or other obligations.

SECTION VIII. CONDITIONS WITH RESPECT TO ISSUANCE OF PERMIT

No voting permit will be granted unless the applicant agrees, among other things:

(1) To permit at its expense such examinations of its affairs by examiners duly authorized to examine banks with which it is affiliated as may be necessary to disclose fully the relations between applicant and such banks, and any other subsidiaries and other organizations with which applicant or any of its subsidiaries is affiliated, and the effect of such relations upon the affairs of such banks and other organizations.

(2) That the reports of such examiners may contain such information as may be necessary to disclose fully the relations between applicant and banks with which it is affiliated, and any other subsidiaries and other organizations with which applicant or any of its subsidiaries is affiliated, and the effect of such relations upon the affairs of such banks and other organizations.

(3) That such examiners may examine each banking institution or other organization owned or controlled by applicant either individually or in conjunction with other banks or other organizations owned or controlled by applicant.

(4) That publication of individual or consolidated statements of the condition of the subsidiaries of applicant and other organizations with which applicant or any of its subsidiaries is affiliated may be required by the Board.

(5) That during the period that any permit granted to applicant remains in force it will not acquire any ownership, control, or interest in any securities company, and will not participate in the management or direction of any such company other than one in the management or direction of which applicant is participating at the time of the filing of the application, and will not engage principally in the business of a securities company in any manner or by any device whatsoever.

(6) That thenceforth it will declare dividends only out of actual net earnings.

(7) That it will maintain the required reserves of readily marketable assets, as set forth in section IX hereof.

(8) That it will furnish such information to the Board as it may require.

(9) That copies of reports of examinations by constituted authorities, and any other information they may have relating to applicant or its subsidiaries or the other organizations with which applicant or any of its subsidiaries is affiliated, may be furnished to the Federal Reserve Board, the Federal Reserve Agent, the Comptroller of the Currency, or other duly constituted authority, upon request therefor.

(10) That any permit for which application is made may be granted for a temporary period in the discretion of the Board.

(11) That, if so requested by the Board, applicant will require any subsidiary nonmember bank to apply for membership in the Federal Reserve System, or will surrender any voting permit granted hereunder upon failure of any such bank to make such application and become a member of the Federal Reserve System, or will divest itself of its ownership or control of such bank.

In the event that the applicant, at the time of filing the application for such permit, owns, controls, or has an interest in, or is participating in the management or direction of, any securities company, it must agree that, within 5 years after the filing of such application, (i) it will divest itself of its ownership, control, and interest in such securities company, (ii) will cease participating in the management or direction thereof, and (iii) 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.¹

SECTION IX. RESERVE REQUIREMENTS

(a) **Holding company affiliate whose shareholders are not personally liable.**—Beginning June 16, 1938, every holding company affiliate, the shareholders or members of which are not individually and severally liable in proportion to the number of shares of such holding company affiliate held by them respectively, in addition to the amounts invested therein, for all statutory liability imposed on such holding company affiliate by reason of its control of shares of stock of banks, must, during the life of any voting permit granted by the Board to such holding company affiliate:

¹ Section 20 of the Banking Act of 1933 provides that, after June 15, 1934, no member bank may be affiliated in any manner described in subdivision (h) of section II of this regulation with any securities company, and for every violation thereof the member bank involved is subject to a penalty not exceeding \$1,000 per day for each day during which such violation continues. If any such violation continues for 6 calendar months after the member bank shall have been warned by the Board to discontinue the same the rights, privileges and franchises of the national bank, or the rights and privileges of membership of the State bank, as the case may be, may be forfeited as provided in the Federal Reserve Act, as amended.

(1) Own, and continue to own, 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; and

(2) Increase such amount by not less than 2 per centum per annum of such aggregate par value until such assets amount to 25 per centum of the aggregate par value of such bank stocks; and

(3) 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.

(b) **Holding company affiliate whose shareholders are personally liable.**—Beginning June 16, 1938, a holding company affiliate, the shareholders or members of which are individually and severally liable in proportion to the number of shares of such holding company affiliate held by them respectively, in addition to the amounts invested therein, for all statutory liability imposed on such holding company affiliate by reason of its control of shares of stock of banks, is 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.

(c) **Use of reserves.**—Beginning June 16, 1938, 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 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 were so depleted, unless the Federal Reserve Board, in its discretion, extends such period for cause.

SECTION X. PENAL PROVISIONS

Under subparagraph (d) of section 5144 of the Revised Statutes, as amended, every officer, director, agent, and employee of every holding company affiliate of a national bank, or of a State member bank which has entered into an agreement such as that required by section III hereof, is made 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 5209 of the Revised Statutes, as amended (U.S.C., title 12, sec. 592).

SECTION XI. REVOCATION OF PERMIT

(a) **Grounds and method of revocation.**—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 thereto, the Board may, in its discretion, revoke any such voting permit after giving 60 days' notice by registered mail of its intention to the holding company affiliate and affording it an opportunity to be heard.

(b) **Effect on national banks.**—Whenever a voting permit of a holding company affiliate of a national bank shall have been revoked, no national bank, whose stock is controlled by the holding company affiliate whose permit is so revoked, may receive deposits of public moneys of the United States, or pay any further dividend to such holding company affiliate upon any shares of such bank controlled by such holding company affiliate; and, in the discretion of the Board, the rights, privileges, and franchises of any or all such banks, the stock of which is controlled by such holding company affiliate, are subject to forfeiture in accordance with section 2 of the Federal Reserve Act, as amended.

(c) **Effect on State member banks.**—Whenever the Board shall have revoked the voting permit of a holding company affiliate of a State member bank, the Board 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 section 9 of the Federal Reserve Act, as amended.

SECTION XII. PARTICIPATION BY SUBSIDIARY MEMBER BANKS OF SAME HOLDING COMPANY AFFILIATE WITHIN THE SAME FEDERAL RESERVE DISTRICT 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.

SECTION XIII. RIGHT TO AMEND

The right to alter, amend, or repeal this regulation, in whole or in part, is expressly reserved.

