FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 1625
January 7, 1936]

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM REGULATION L AND REGULATION R, EFFECTIVE JANUARY 4, 1936

To each Member Bank in the Second Federal Reserve District:

Enclosed herewith is a printed copy of each of the following revised regulations of the Board of Governors of the Federal Reserve System:

INTERLOCKING BANK DIRECTORATES UNDER THE CLAYTON ACT, REGULATION L, as revised effective January 4, 1936 (superseding Regulation L, Series of 1933). This regulation is in the form adopted by the Board on January 4, 1936.

RELATIONSHIPS WITH DEALERS IN SECURITIES UNDER SECTION 32 OF THE BANKING ACT OF 1933, REGULATION R, as revised effective January 4, 1936 (superseding Regulation R, Series of 1933). This regulation is in the form adopted by the Board on January 4, 1936.

Additional copies of the above mentioned regulations will be furnished upon request.

J. H. CASE,
Federal Reserve Agent.

BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM

INTERLOCKING BANK DIRECTORATES UNDER THE CLAYTON ACT

REGULATION L

This regulation as printed herewith is in the form as revised effective January 4, 1936.

PRINTED IN NEW YORK, N. Y.

INQUIRIES REGARDING THIS REGULATION

Any inquiry relating to this regulation should be addressed to the Federal Reserve Agent at the Federal Reserve bank of the district in which the inquiry arises.

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REGULATION L

Revised Effective January 4, 1936.
(Superseding Regulation L, Series of 1933)

INTERLOCKING BANK DIRECTORATES UNDER THE CLAYTON ACT

STATUTORY PROVISIONS

This regulation is based upon and issued pursuant to the provisions of section 8 of the Clayton Act, the pertinent parts of which are published in the Appendix hereto.[1]

SECTION 1. PROHIBITIONS

Under section 8 of the Clayton Act, except as hereinafter stated in section 2:

(*a*) No person who is a director, officer, or employee of a member bank of the Federal Reserve System can legally be at the same time a director, officer, or employee of any other bank, banking association, savings bank, or trust company organized under the National Bank Act or organized under the laws of any State or of the District of Columbia;

(*b*) No private banker[2] can legally be at the same time a director, officer, or employee of any bank, banking association, savings bank, or trust company organized under the National Bank Act or organized under the laws of any State or of the District of Columbia.

SECTION 2. EXCEPTIONS

The provisions of section 8 of the Clayton Act:

(*a*) do not apply to a person who is neither a private banker nor a director, officer, or employee of a member bank of the Federal Reserve System;

(*b*) do not prohibit a private banker or a director, officer, or employee of a member bank of the Federal Reserve System from being at the same time a director, officer, or employee of any number of

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[1] Section 32 of the Banking Act of 1933 is applicable in certain circumstances to interlocking relationships between member banks and underwriters and dealers in securities. See Regulation R of the Board of Governors of the Federal Reserve System.

Section 17(c) of the Public Utility Act of 1935 is applicable in certain circumstances to interlocking relationships between banks and public utility companies and public utility holding companies. Inquiries regarding this section should be addressed to the Securities and Exchange Commission and not to the Board of Governors of the Federal Reserve System.

Section 305(b) of the Federal Power Act is applicable in certain circumstances to interlocking relationships between public utility companies and banks which are authorized by law to underwrite or participate in the marketing of securities of a public utility. Inquiries regarding this section should be addressed to the Federal Power Commission and not to the Board of Governors of the Federal Reserve System.

[2] The term "private banker" means an unincorporated individual engaged in the banking business or a member of an unincorporated firm engaged in such business.

other banking institutions not organized under the National Bank Act or under the laws of any State or of the District of Columbia[3];

(*c*) do not prohibit, until February 1, 1939, any interlocking relationship involving a member bank, which was in existence on August 23, 1935, the date of the enactment of the Banking Act of 1935, and which, at that time, was lawful under the Clayton Act, either (a) because it was authorized by a permit[4] then in effect[5] or (b) because it was otherwise not subject to the prohibitions of the Clayton Act[6];

(*d*) do not prohibit a director, officer, or employee of a member bank of the Federal Reserve System from being at the same time a director, officer, or employee of any number of the following—

(1) Banks, banking associations, savings banks, or trust companies, more than 90 per cent of the stock of which is owned directly or indirectly by the United States or by any corporation of which the United States directly or indirectly owns more than 90 per cent of the stock;

(2) Banks, banking associations, savings banks, or trust companies which have been placed formally in liquidation or which are in the hands of receivers, conservators, or other officials exercising similar functions;

(3) Corporations principally engaged in international or foreign banking or banking in a dependency or insular possession of the United States which have entered into agreements with the Board of Governors of the Federal Reserve System pursuant to section 25 of the Federal Reserve Act;

(4) Banks, banking associations, savings banks, or trust companies, more than 50 per cent of the common stock of which is

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[3] In other words, the provisions of section 8 of the Clayton Act do not prohibit a private banker or a director, officer, or employee of a member bank of the Federal Reserve System from being at the same time a director, officer, or employee of any number of the following:

(a) Joint Stock Land banks, Federal Land banks, Federal Reserve banks, Federal Intermediate Credit banks, The Central Bank for Cooperatives, Federal Home Loan banks, foreign banking corporations organized under section 25(a) of the Federal Reserve Act, and other institutions organized under laws of the United States *other than* the National Bank Act;

(b) Banking institutions organized under the laws of territories, dependencies, or insular possessions of the United States, such as the Philippine Islands, Puerto Rico, Hawaii, or the Canal Zone, and not organized under the National Bank Act; and

(c) Banking institutions organized under the laws of foreign countries.

Federal Savings and Loan Associations and Federal Credit Unions are not organized under the National Bank Act or under the laws of any State or of the District of Columbia, and therefore are excepted on that ground irrespective of whether they are "banks" or "banking associations" within the meaning of the statute.

[4] Relationships which were lawful on August 23, 1935 because authorized by a permit then in effect were lawful within the meaning of this exception irrespective of whether the permittee was then also serving in other relationships which were within the prohibitions of the Clayton Act but which were not authorized by such permit.

[5] It is immaterial whether or not such permit contained a provision limiting its duration, provided it was in effect on August 23, 1935.

[6] The provisions of the Clayton Act regarding interlocking bank directorates in effect prior to August 23, 1935 are analyzed in Regulation L, Series of 1933, which was published in the Federal Reserve Bulletin for November 1933, page 711.

owned directly or indirectly[7] by persons who own directly or indirectly[7] more than 50 per cent of the common stock of such member bank;

(5) Banks, banking associations, savings banks, or trust companies not located and having no branch in the same city, town, or village as that in which such member bank or any branch thereof is located, or in any city, town, or village contiguous or adjacent thereto[8];

(6) Banks, banking associations, savings banks, or trust companies not engaged in a class or classes of business[9] in which such member bank is engaged;

(7) Mutual savings banks having no capital stock;

(*e*) do not prohibit a private banker from being at the same time a member of any number of firms of private bankers, or from being at the same time a director, officer, or employee of any number of the following:

(1) Banks, banking associations, savings banks, or trust companies, more than 90 per cent of the stock of which is owned directly or indirectly by the United States or by any corporation of which the United States directly or indirectly owns more than 90 per cent of the stock;

(2) Banks, banking associations, savings banks, or trust companies which have been placed formally in liquidation or which are in the hands of receivers, conservators, or other officials exercising similar functions;

(3) Corporations principally engaged in international or foreign banking or banking in a dependency or insular possession of the United States which have entered into agreements with the Board of Governors of the Federal Reserve System pursuant to section 25 of the Federal Reserve Act;

(4) Mutual savings banks having no capital stock.

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[7] The following are clear illustrations of indirect ownership; (1) where more than 50 per cent of the stock of one bank is owned by the other bank; (2) where more than 50 per cent of the stock of one bank is held in trust for the shareholders of the other bank; and (3) where more than 50 per cent of the stock of one bank is owned by a corporation, all the stock of which is owned by the shareholders of the other bank.

[8] The Board has interpreted the term "contiguous" as referring to cities, towns, and villages whose corporate limits touch or coincide at some point, and has interpreted the word "adjacent" as referring to cities, towns, and villages which, although not actually "contiguous" within the above interpretation of that word, are located in such close proximity and are so readily accessible to each other as to be in practical effect a single city, town, or village, as for example, cities, towns, or villages separated only by a water-course, or a suburb of a city separated from that city by an intervening suburb.

[9] The phrase "class or classes of business" refers to the various types of business engaged in by such institutions involving relationships with customers, such as (1) receiving commercial deposits, (2) receiving savings deposits, (3) carrying checking accounts, (4) making commercial loans, (5) making real estate loans, (6) making loans on stock or bond collateral, (7) making "personal" loans of the character usually made by Morris Plan or Industrial banks, (8) engaging in corporate trust business, and (9) engaging in individual trust business.

SECTION 3. RELATIONSHIPS PERMITTED BY BOARD

In addition to any relationships covered by the foregoing exceptions, *not more than one* of the following relationships is hereby permitted[10] by the Board of Governors of the Federal Reserve System in the case of any one individual:

(*a*) Any private banker or any director, officer, or employee of a member bank of the Federal Reserve System may be at the same time a director, officer, or employee of not more than one Morris Plan bank, cooperative bank, credit union or other similar institution;

(*b*) Any director, officer, or employee of a member bank of the Federal Reserve System may be at the same time a director, officer, or employee of not more than one other bank, banking association, savings bank, or trust company if the records of both institutions show that active consideration is being given to the consolidation or merger of such member bank and such other bank, banking association, savings bank, or trust company, or that active consideration is being given to the purchase of a substantial portion of the assets and the assumption of a substantial portion of the liabilities of one such institution by the other; provided that no interlocking relationship permitted pursuant to this paragraph shall continue for a period or periods aggregating more than six months[11];

(*c*) Any director, officer, or employee of a member bank of the Federal Reserve System who had filed an application for permission to serve two or more banks within the prohibitions of section 8 of the Clayton Act, which had been received at the offices of the Board in Washington, D. C., or at the offices of a Federal Reserve Agent on or before August 23, 1935, and on which the Board had not taken adverse action prior to that date, may serve any member bank named in such application and any other one bank, banking association, savings bank, or trust company named in such application until the next election of directors of such institutions or until March 1, 1936, whichever is the earlier;

(*d*) Any private banker may be at the same time a director, officer, or employee of not more than one of the following:

(1) A bank, banking association, savings bank, or trust company organized under the laws of any State or of the District of

[10] The provisions formerly contained in section 8 of the Clayton Act authorizing the issuance of individual permits by the Board were repealed by section 329 of the Banking Act of 1935, and the Act now provides that the Board "may by regulation permit such service as a director, officer, or employee of not more than one other such institution or branch thereof * * *." (See first paragraph of section 8, quoted in the Appendix to this Regulation.) Accordingly, individual permits will no longer be issued.

[11] In the case of any relationship existing on the date this regulation becomes effective, such six months period shall begin to run on the effective date of this regulation.

Columbia which is not a member bank of the Federal Reserve System;

(2) A member bank more than 50 per cent of the common stock of which is owned directly or indirectly by such private banker or by a firm of private bankers of which he is a member;

(3) A member bank not located and having no branch in the same city, town, or village as that in which such private banker or a firm of private bankers of which he is a member maintains a place of business, or in any city, town, or village contiguous or adjacent thereto[12];

(4) A member bank not engaged in a class or classes of business[13] in which such private banker or a firm of private bankers of which he is a member is engaged;

(5) A bank, banking association, savings bank, or trust company within the prohibitions of section 8 of the Clayton Act, which was included in an application under the Clayton Act filed by such private banker, which had been received at the offices of the Board in Washington, D. C., or at the offices of a Federal Reserve Agent on or before August 23, 1935, and on which the Board had not taken adverse action prior to that date; provided, that the provisions of this paragraph (5) shall be effective only until the next annual election of directors of such institution or until March 1, 1936, whichever is the earlier.

SECTION 4. ENFORCEMENT

(*a*) **Action by Federal Reserve Agent.** Each Federal Reserve Agent shall cause the information contained in reports of examination of member banks and other information available to him from other sources to be analyzed in the light of the provisions of section 8 of the Clayton Act relating to interlocking relationships involving banks; and, in the case of any apparent violation of that section, shall communicate with the banking institutions and with the director, officer or employee involved, with a view of ascertaining whether the relationships involved are in conformity with the law, and, if not, obtaining compliance with the law.

(*b*) **Reports to Board.** In each case in which, after taking the steps outlined above, the Federal Reserve Agent finds that the relationships involved are in violation of the law and have not been brought into conformity with the law within a reasonable time after the matter was brought to the attention of the banking institutions

[12] See footnote 8, page 3.
[13] See footnote 9, page 3.

and the officer, director or employee involved, the Federal Reserve Agent shall report the facts to the Board of Governors of the Federal Reserve System with a recommendation as to the action to be taken.

SECTION 5. AMENDMENTS

This regulation is subject to amendment or repeal, in whole or in part, in the discretion of the Board of Governors of the Federal Reserve System.

APPENDIX

STATUTORY PROVISIONS

Section 8 of the Clayton Act (U. S. C., title 15, sec. 19), as amended by the Banking Act of 1935, reads in part as follows:

> Sec. 8. No private banker or director, officer, or employee of any member bank of the Federal Reserve System or any branch thereof shall be at the same time a director, officer, or employee of any other bank, banking association, savings bank, or trust company organized under the National Bank Act or organized under the laws of any State or of the District of Columbia, or any branch thereof, except that the Board of Governors of the Federal Reserve System may by regulation permit such service as a director, officer, or employee of not more than one other such institution or branch thereof; but the foregoing prohibition shall not apply in the case of any one or more of the following or any branch thereof:
>
> (1) A bank, banking association, savings bank, or trust company, more than 90 per centum of the stock of which is owned directly or indirectly by the United States or by any corporation of which the United States directly or indirectly owns more than 90 per centum of the stock.
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> (2) A bank, banking association, savings bank, or trust company which has been placed formally in liquidation or which is in the hands of a receiver, conservator, or other official exercising similar functions.
>
> (3) A corporation principally engaged in international or foreign banking or banking in a dependency or insular possession of the United States which has entered into an agreement with the Board of Governors of the Federal Reserve System pursuant to section 25 of the Federal Reserve Act.
>
> (4) A bank, banking association, savings bank, or trust company, more than 50 per centum of the common stock of which is owned directly or indirectly by persons who own directly or indirectly more than 50 per centum of the common stock of such member bank.
>
> (5) A bank, banking association, savings bank, or trust company not located and having no branch in the same city, town, or village as that in which such member bank or any branch thereof is located, or in any city, town, or village contiguous or adjacent thereto.
>
> (6) A bank, banking association, savings bank, or trust company not engaged in a class or classes of business in which such member bank is engaged.
>
> (7) A mutual savings bank having no capital stock.
>
> Until February 1, 1939, nothing in this section shall prohibit any director, officer, or employee of any member bank of the Federal Reserve System, or any branch thereof, who is lawfully

serving at the same time as a private banker or as a director, officer, or employee of any other bank, banking association, savings bank, or trust company, or any branch thereof, on the date of enactment of the Banking Act of 1935, from continuing such service.

The Board of Governors of the Federal Reserve System is authorized and directed to enforce compliance with this section, and to prescribe such rules and regulations as it deems necessary for that purpose.

* * * * * * * * *

When any person elected or chosen as a director or officer or selected as an employee of any bank or other corporation subject to the provisions of this Act is eligible at the time of his election or selection to act for such bank or other corporation in such capacity his eligibility to act in such capacity shall not be affected and he shall not become or be deemed amenable to any of the provisions hereof by reason of any change in the affairs of such bank or other corporation from whatsoever cause, whether specifically excepted by any of the provisions hereof or not, until the expiration of one year from the date of his election or employment.

BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM

RELATIONSHIPS WITH DEALERS IN SECURITIES UNDER SECTION 32 OF THE BANKING ACT OF 1933

REGULATION R

This regulation as printed herewith is in the form as revised effective January 4, 1936.

PRINTED IN NEW YORK, N. Y.

INQUIRIES REGARDING THIS REGULATION

Any inquiry relating to this regulation should be addressed to the Federal Reserve Agent at the Federal Reserve bank of the district in which the inquiry arises.

REGULATION R

Revised, effective January 4, 1936
(Superseding Regulation R of 1933)

RELATIONSHIPS WITH DEALERS IN SECURITIES UNDER SECTION 32 OF THE BANKING ACT OF 1933

STATUTORY PROVISIONS

This regulation is based upon and issued pursuant to the provisions of section 32 of the Banking Act of 1933, which is published in the Appendix hereto.

SECTION 1. PROHIBITIONS

Under section 32 of the Banking Act of 1933, except as hereinafter stated in section 2, no officer, director, or employee of any corporation or unincorporated association, no partner or employee of any partnership, and no individual, primarily engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation, of stocks, bonds, or other similar securities, can legally be at the same time an officer, director, or employee of any member bank of the Federal Reserve System.[1]

SECTION 2. EXCEPTIONS

Pursuant to the authority vested in it by section 32, the Board of Governors of the Federal Reserve System hereby permits the following relationships:[2]

Any officer, director, or employee of any corporation or unincorporated association, any partner or employee of any partnership, or any individual, not engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation, of any stocks, bonds, or other similar securities except bonds, notes, certificates of indebtedness, and Treasury bills of the United States, obligations fully guaranteed both as to principal and interest by the United States, debentures issued by Federal Intermediate Credit

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[1] Therefore, by its terms, section 32 does not apply—

(a) To a person who is not an officer, director, or employee of a member bank of the Federal Reserve System;

(b) To a person (1) who is not an officer, director, or employee of a corporation or unincorporated association primarily engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation, of stocks, bonds, or other similar securities, (2) who is not a partner or employee of a partnership primarily so engaged, and (3) who is not, in his individual capacity, primarily so engaged.

A broker who is engaged solely in executing orders for the purchase and sale of securities on behalf of others in the open market is not engaged in the business referred to in section 32.

[2] Under section 32, as amended effective January 1, 1936, the Board is authorized to except limited classes of relationships from the prohibitions of the statute, under certain conditions; but the Board can make such exceptions only by general regulations and is not authorized to issue individual permits.

banks, bonds issued by Federal Land banks, and general obligations of Territories, dependencies and insular possessions of the United States, may be at the same time an officer, director, or employee of any member bank of the Federal Reserve System, except when otherwise prohibited.[3]

SECTION 3. AMENDMENTS

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

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[3] Section 8 of the Clayton Act is applicable in certain circumstances to interlocking relationships between member banks and private bankers, and other banks, banking associations, savings banks and trust companies. See Regulation L of the Board of Governors of the Federal Reserve System.

Section 17(c) of the Public Utility Act of 1935 is applicable in certain circumstances to interlocking relationships between banks and private bankers (and corporations owned by banks and private bankers), and public utility companies and public utility holding companies. Inquiries regarding this section should be addressed to the Securities and Exchange Commission and not to the Board of Governors of the Federal Reserve System.

Section 305(b) of the Federal Power Act is applicable in certain circumstances to interlocking relationships between public utility companies and banks and bankers that are authorized by law to underwrite or participate in the marketing of securities of a public utility. Inquiries regarding this section should be addressed to the Federal Power Commission and not to the Board of Governors of the Federal Reserve System.

APPENDIX

STATUTORY PROVISIONS

Section 32 of the Banking Act of 1933 (U. S. C., title 12, sec. 78), as amended by section 307 of the Banking Act of 1935, effective January 1, 1936, reads as follows:

> Sec. 32. No officer, director, or employee of any corporation or unincorporated association, no partner or employee of any partnership, and no individual, primarily engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation, of stocks, bonds, or other similar securities, shall serve the same time as an officer, director, or employee of any member bank except in limited classes of cases in which the Board of Governors of the Federal Reserve System may allow such service by general regulations when in the judgment of the said Board it would not unduly influence the investment policies of such member bank or the advice it gives its customers regarding investments.