

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 1639]
[January 30, 1936]

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
REGULATION P, EFFECTIVE JANUARY 1, 1936

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

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

HOLDING COMPANY AFFILIATES—VOTING PERMITS,
REGULATION P, as revised effective January 1, 1936 (superseding
Regulation P, Series of 1933).

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

J. H. CASE,
Federal Reserve Agent.

**BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM**

**HOLDING COMPANY AFFILIATES—
VOTING PERMITS**

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REGULATION P

**This regulation as printed herewith is in the form
as revised effective January 1, 1936**



BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM

HOLDING COMPANY AFFILIATES
VOTING PERMITS

REGULATION T

INQUIRIES REGARDING THIS REGULATION

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



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REGULATION P

Revised, Effective January 1, 1936

(Superseding Regulation P, Series of 1933)

HOLDING COMPANY AFFILIATES—VOTING PERMITS

STATUTORY PROVISIONS

This regulation is based upon and issued pursuant to various provisions of section 5144 of the Revised Statutes of the United States and of the Federal Reserve Act, the most important of which, together with related provisions of law, are published in the Appendix hereto.

SECTION 1. DEFINITIONS

For the purposes of this regulation—

(a) **Holding company affiliate.**—The term “holding company affiliate” shall have the meaning given to it by section 2(c) of the Banking Act of 1933.¹ (See Appendix, page 8.)

(b) **Affiliate.**—The term “affiliate” shall have the meaning given to it by section 2(b) of the Banking Act of 1933. (See Appendix, page 8.)²

(c) **Subsidiary.**—The term “subsidiary” means any corporation, business trust, association, or other similar organization engaged in any kind of business whatsoever (including any member or non-member bank)—

(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

¹ An organization is not a holding company affiliate of a bank (national or State) unless the bank is a member of the Federal Reserve System.

² For the purposes of certain provisions of sections 9 and 23A of the Federal Reserve Act and section 5211 of the Revised Statutes of the United States, the term “affiliate” also includes any “holding company affiliate.”

(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.

(d) **Affiliated.**—Any corporation, business trust, association, or other similar organization (including any member or nonmember bank) shall be deemed to be “affiliated” with another such organization:

(1) If either organization owns or controls, directly or indirectly, a majority of the shares or of the voting shares of the other or more than 50 per centum of the number of shares of the other voted for the election of directors, trustees, or other persons exercising similar functions at the preceding election; or

(2) If either controls in any manner the election of a majority of the other's directors, trustees, or other persons exercising similar functions; or

(3) If control of either is held, directly or indirectly, through stock ownership or in any other manner, by shareholders of the other who also own or control a majority of the shares of the latter or more than 50 per centum of the number of shares of the latter voted for the election of directors, trustees, or other persons exercising similar functions at the preceding election; or

(4) If control of either is held, directly or indirectly, through stock ownership or in any other manner, by trustees for the benefit of the shareholders of the other; or

(5) If a majority of the directors, trustees, or other persons exercising similar functions of either have similar connections with the other.

(e) **Member bank.**—The term “member bank” means any national bank, 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.

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

(g) **General voting permit.**—The term “general voting permit” means any voting permit entitling a holding company affiliate to vote

the stock which it owns or controls of a subsidiary member bank at all meetings of the shareholders of such bank and for all purposes.

(h) **Limited voting permit.**—The term “limited voting permit” means any voting permit authorizing a holding company affiliate to vote the stock which it owns or controls of a subsidiary member bank only at a designated meeting or meetings of the shareholders of such bank or at a meeting or meetings held within a designated period of time and for only such purposes as are stated in the permit.

(i) **Board.**—The term “Board” means the Board of Governors of the Federal Reserve System.

SECTION 2. ORGANIZATIONS NOT ENGAGED AS A BUSINESS IN HOLDING STOCK OF, OR MANAGING OR CONTROLLING, BANKS

The term “holding company affiliate” does not include (except for the purposes of Sec. 23A of the Federal Reserve Act) any organization which is determined by the Board not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies. The Board will consider this matter in acting upon applications for voting permits and if, on the basis of the available information, it determines that an applicant is not so engaged within the meaning of the law, it will advise such applicant accordingly.

If any organization which does not have a voting permit application pending before the Board desires that the Board determine that it is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, it shall file a request for such determination.

Any such request shall be accompanied by full information concerning all matters having a bearing on the question, including the purpose for which the organization filing the request was organized, the nature and purpose of its present activities, the description and value of its various classes of assets, its relationships with affiliated organizations (including name and address of each such organization, the character of its business or other activities, and the nature of the relationship), and the bank stocks which it directly or indirectly owns or controls (including the number and value of the shares owned or controlled of each bank, the total number of outstanding shares of each bank, and the manner in and purpose for which such stock, or control thereof, was acquired and is held).³

³ If the organization filing the request has previously been granted a general voting permit, it need only file such information as is necessary to supplement and bring up to date the information contained in its application for such permit.

Any such request and the supporting information shall be in writing and shall be filed in duplicate with the Federal Reserve agent at the Federal Reserve bank of the district in which the principal office of such organization is located. The Federal Reserve agent shall forward to the Board the original thereof together with his recommendations and the opinion of counsel for the Federal Reserve bank of such district.

SECTION 3. STATE MEMBER BANKS MUST OBTAIN AND FILE AGREEMENTS BY HOLDING COMPANY AFFILIATES

Each State member bank which is or hereafter becomes a subsidiary of a holding company affiliate shall obtain from such holding company affiliate an agreement (Form P-5) that such holding company affiliate will be subject to the same conditions and limitations as are applicable to holding company affiliates of national banks under the provisions of section 5144 of the Revised Statutes. Such agreement shall be obtained within 90 days after such member bank shall have become a subsidiary of the holding company affiliate.

Upon the failure of a State member bank which is now or hereafter becomes a subsidiary of a holding company affiliate to obtain the requisite agreement within the time prescribed, the law makes it the duty of the Board to require such bank to surrender its stock of the Federal Reserve bank and to forfeit all rights and privileges of membership in the Federal Reserve System.

The original and one copy of such agreement must be filed promptly with the Federal Reserve agent at the Federal Reserve bank of the district in which the holding company affiliate's principal office is located, and the original of such agreement shall be sent by such Federal Reserve agent to the Board.

Any State banking institution applying for membership in the Federal Reserve System will be required to obtain and file a similar agreement (Form P-6) by any corporation, business trust, association, or other similar organization which will become a holding company affiliate of such banking institution upon the latter's admission to membership in the Federal Reserve System.

SECTION 4. NECESSITY FOR OBTAINING VOTING PERMITS

No holding company affiliate of a national bank or of a State member bank which has executed the agreement required by section 3 of this regulation may lawfully vote any share of stock of such bank for any purpose, other than to place such bank in voluntary liquidation or to take any other action pertaining to the voluntary liquidation of such bank, unless such holding company affiliate shall have first obtained a voting permit, pursuant to the provisions of

section 5144 of the Revised Statutes and of this regulation, and unless such voting permit shall be in force at the time such shares are voted.

No State banking institution will be admitted to membership in the Federal Reserve System until each corporation, business trust, association, or other similar organization which will become a holding company affiliate of such banking institution upon the latter's admission to membership in the Federal Reserve System has filed an application for a voting permit. At its discretion, the Board will either (a) require that each such applicant for a voting permit comply with all conditions to the granting of a general voting permit prior to the admission of the bank to membership, or (b) admit the bank to membership subject to the condition that each such applicant obtain a general voting permit within a reasonable time.

SECTION 5. GRANTING OF VOTING PERMITS

Any holding company affiliate of a member bank, and any such organization of which a nonmember bank applying for membership in the Federal Reserve System is a subsidiary, may make application to the Board for a voting permit entitling it to vote the shares owned or controlled by it at any or all meetings of shareholders of each of its subsidiary member banks or entitling the trustee or trustees holding the shares for its benefit or the benefit of its shareholders or members so to vote such shares.

In acting upon an 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 of its subsidiary member banks. The Board is vested with discretionary authority to grant or withhold any voting permit applied for as the public interest may require, provided, however, that no voting permit shall be granted except upon certain conditions prescribed by law. Accordingly, each applicant for a voting permit will be required to execute certain agreements which are contained in Form P-1 (the application form) and the Board, in granting voting permits, will prescribe such additional conditions as it may, in the circumstances, deem reasonable and proper and in the public interest.

SECTION 6. PROCEDURE RELATING TO APPLICATIONS FOR VOTING PERMITS

An applicant for a voting permit need file only one application, notwithstanding the fact that it may desire permission to vote shares of more than one bank. The application shall be submitted on Form P-1 and the applicant shall furnish the exhibits referred to therein as a part of its application. Exhibits C, L, N, P, and Q shall be

furnished on Forms P-2, P-3, P-4, P-5, and P-6, respectively. All forms (except signatures of persons executing same) should be filled out by typewriter. Instructions concerning the preparation of the other exhibits should be obtained from the Federal Reserve agent.

The application and the exhibits referred to in the application blank shall be executed and filed in duplicate with the Federal Reserve agent at the Federal Reserve bank of the district in which the applicant's principal office is located and a copy thereof shall be filed with the Federal Reserve agent at the Federal Reserve bank of each other district in which a subsidiary member bank or subsidiary non-member bank applying for membership is located.

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

If a holding company affiliate, which has filed an application for a voting permit, desires to vote shares of a subsidiary member bank at any meeting of the bank's shareholders before the Board grants it a general voting permit, such holding company affiliate may request the Board to grant a limited permit entitling it to vote the shares at such meeting. The request shall be in writing and shall be signed by a duly authorized officer of the applicant. It shall state the approximate date of the meeting and shall contain full information concerning the matters to be acted upon at such meeting. It shall be filed in duplicate with the Federal Reserve agent with whom the application for a voting permit has been filed and the Federal Reserve agent shall forward the original of such request to the Board with his recommendation.

SECTION 7. RESERVE REQUIREMENTS

Beginning June 16, 1938, every holding company affiliate must, during the life of any voting permit granted to it, comply with the provisions of section 5144 of the Revised Statutes relating to reserves of readily marketable assets other than bank stock (see Appendix, page 10). 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 the elimination of losses incurred in such banks; but any deficiency in such assets resulting from such

use must be made up within a period of two years after the date such assets are so depleted, unless the Board, in its discretion, extends such period for cause.

SECTION 8. REVOCATION OF PERMIT

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 to section 5144 of the Revised Statutes, the Board may, in its discretion, revoke any voting permit theretofore granted to such holding company affiliate after giving 60 days' notice by registered mail of its intention to the holding company affiliate and affording it an opportunity to be heard.

SECTION 9. PARTICIPATION BY SUBSIDIARY MEMBER BANKS 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. A holding company affiliate may designate one of its subsidiary member banks in each of the three groups into which member banks of each Federal Reserve district are divided for electoral purposes to participate in the nomination and election of each director chosen by the group of which such bank is a member.

SECTION 10. FORMS

All forms referred to in this regulation and all such forms as they may be amended from time to time shall be a part of this regulation.

APPENDIX

Section 2, Banking Act of 1933—Section 2 of the Banking Act of 1933 (as amended by section 301 of the Banking Act of 1935) reads in part as follows:

Definition of "affiliate."⁴

(b) Except where otherwise specifically provided, the term "affiliate" shall include any corporation, business trust, association, or other similar organization—

(1) Of which a member bank, directly or indirectly, owns or controls either a majority of the voting shares or more than 50 per centum of the number of shares voted for the election of its directors, trustees, or other persons exercising similar functions at the preceding election, or controls in any manner the election of a majority of its directors, trustees, or other persons exercising similar functions; or

(2) 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 either a majority of the shares of such bank or more than 50 per centum of the number of shares voted for the election of directors of such bank at the preceding election, or by trustees for the benefit of the shareholders of any such bank; or

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

Definition of "holding company affiliate."—

(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.

Notwithstanding the foregoing, the term "holding company affiliate" shall not include (except for the purposes of section 23A of the Federal Reserve Act, as amended) any corporation all of the stock of which is owned by the United States, or any organization which is determined by the Board of Governors of the Federal Reserve System

⁴This and subsequent catchlines are not a part of the law.

not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies.

Section 5144, Revised Statutes.—Section 5144 of the Revised Statutes of the United States reads in part as follows:

Voting of shares of national bank controlled by holding company affiliate.—

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 that * * * shares controlled by any holding company affiliate of a national bank⁵ 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, but such holding company affiliate may, without obtaining such permit, vote in favor of placing the association in voluntary liquidation or taking any other action pertaining to the voluntary liquidation of such association. * * *

Shares deemed to be controlled.—

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.

Application for and granting of voting permits.—

Any such holding company affiliate may make application to the Board of Governors of the Federal Reserve System for a voting permit entitling it to vote the stock controlled by it at any or all meetings of shareholders of such bank 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 Board of Governors of the Federal Reserve System 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:

⁵ Under section 9 of the Federal Reserve Act holding company affiliates of State member banks must agree to be subject to the same conditions and limitations as are applicable to holding company affiliates of national banks under this section of the Revised Statutes.

Examinations; publication of statements.—

(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;

Reserve requirements.—

(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 Board of Governors of the Federal Reserve System may by regulation prescribe; and the provisions of this subsection, instead of subsection (b), shall apply to all holding company affiliates with respect to any shares of bank stock owned or controlled by them as to which there is no statutory liability imposed upon the holders of such bank stock;

Penalties for false entries.—

(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

Relationships with "securities companies"; payment of dividends.—

(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.

Revocation of voting permits; effect of revocation.—

If at any time it shall appear to the Board of Governors of the Federal Reserve System 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 Board of Governors of the Federal Reserve System 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 oppor-

tunity to be heard. Whenever the Board of Governors of the Federal Reserve System 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 Board of Governors of the Federal Reserve System 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 Board of Governors of the Federal Reserve System, be subject to forfeiture in accordance with section 2 of the Federal Reserve Act, as amended.

Section 9, Federal Reserve Act. Holding company affiliates of State member banks.—Section 9 of the Federal Reserve Act 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 Board of Governors of the Federal Reserve System 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 Board of Governors of the Federal Reserve System. 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 Board of Governors of the Federal Reserve System 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 Board of Governors of the Federal Reserve System shall have revoked the voting permit of any such holding company affiliate, the Board of Governors of the Federal Reserve System 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 4, Federal Reserve Act. Election of Federal Reserve bank directors.—The provisions of section 4 of the Federal Reserve Act relating to the nomination and election of Class A and Class B directors of the Federal Reserve banks include the following proviso:

Provided, That whenever any two or more member banks within the same Federal reserve district are affiliated with the same holding company affiliate, participation by such member banks in any such nomination or election shall be confined to one of such banks, which may be designated for the purpose by such holding company affiliate.