

**FEDERAL RESERVE BANK  
OF NEW YORK**

August 24, 1964

**Proposed New Regulation on Securities of Member State Banks**

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

The following statement was made public August 21 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today filed for publication in the Federal Register, and for comments by interested persons before adoption, a proposed new regulation with respect to "Securities of Member State Banks." The Board also released a proposed "Form for Registration of Securities of a Bank."

The proposed regulation was issued pursuant to an Act of Congress (S. 1642) amending the Securities Exchange Act of 1934, approved yesterday by President Johnson. One of the principal purposes of that Act is to require disclosure of information, particularly financial information, regarding corporations whose stock and other securities are widely held by the public. Disclosure of such information is designed to enable investors and prospective investors to make informed decisions.

Heretofore the disclosure requirements of the Securities Exchange Act were confined chiefly to securities that are listed and traded on exchanges. Such exchange-traded securities include the securities of most large corporations, but a substantial number of companies whose securities are widely held by the public are not listed on any exchange but are traded in the "over-the-counter market," which is based on daily lists of offerings and telephone communication among dealers and brokers. In some industries, listing on exchanges is exceptional, even for the largest corporations. For example, no bank stocks are traded on either the New York Stock Exchange or the American Stock Exchange; the stocks of even the largest banks are traded exclusively over the counter.

As amended by the Act signed by the President yesterday, the public disclosure provisions of the Securities Exchange Act will apply not only to companies with securities listed on exchanges but also to corporations with assets of more than \$1 million and 750 or more stockholders of a single class—in most cases holders of common stock—even though their securities are not traded on an exchange. In other words, the mandatory disclosure requirements will also apply hereafter to widely held (and presumably actively traded) securities in the over-the-counter market.

With respect to securities of banks, the new law embodies a fundamental departure from the previous pattern of Federal regulation of the securities markets. Since the enactment of the two basic Federal securities laws in 1933 and 1934, administration of the disclosure provisions and related provisions of those laws has been vested exclusively in the Securities and Exchange Commission. As now amended, the "powers, functions, and duties vested in the Commission" to enforce the registration, reporting, proxy solicitation, and so-called "insider trading" provisions of the Securities Exchange Act *with respect to the securities of banks* are transferred to the Federal bank supervisory agencies. The Comptroller of the Cur-

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rency will administer those laws as they apply to securities of national banks, the Board of Governors as they apply to securities of State-chartered banks that are members of the Federal Reserve System, and the Federal Deposit Insurance Corporation with respect to all other insured banks. It is estimated that the new law will apply to the stocks of approximately 600 banks, or less than 5 per cent of the country's 14,000 banks. With few exceptions, the banks thus made subject to the Securities Exchange Act will include all of the larger banking institutions.

As indicated, the Securities Exchange Act requires corporations subject to its provisions to file registration statements containing basic financial and other information, and these registration statements are available for inspection by investors, investment advisers, and the public generally. Annual, semiannual, and special reports are also required to keep up to date the basic information in the initial registration statements. The Act further provides that stockholders' proxies, for use at annual and other corporate meetings, may be solicited and used only in accordance with Governmental regulations. In addition, the Act requires directors, officers, and large stockholders to disclose ownership of securities of their corporations and transactions therein, and to subject "insiders' profits" from short-swing transactions in such securities to "recapture" by the corporation itself.

The proposed Regulation of the Board of Governors is being published for comments by interested persons within a 30-day period. It contains provisions covering the filing and the content of registration statements and supplementary reports regarding the securities of member State banks that are subject to the amended Act, rules governing solicitation of proxies from the holders of such securities, and inspection and publication of information filed pursuant to the Regulation. The Board's proposed Regulation will be expanded shortly to include provisions dealing with reporting of "insiders'" ownership of, and transactions in, securities of their banks, as well as an Appendix that will relate to the form and content of financial statements that must be filed.

The proposed form for registration of securities of member State banks is designed for use not only in the case of bank stocks traded over the counter but also for use with respect to any securities that member State banks may wish to register for trading on an exchange. Both the regulation and the form are similar, in most respects, to the SEC's General Rules and Regulations under the Securities Exchange Act of 1934 and the Commission's general form for registration of securities on a national securities exchange. It is expected that the Board will soon publish for comment forms for annual reports, semiannual reports, and reports to cover important corporate developments currently, as well as forms for solicitation of proxies and the reporting of insiders' ownership of, and transactions in, bank securities.

Copies of the proposed regulation and form for registration will be available for inspection at the offices of the Federal Reserve Banks throughout the country.

Copies of the proposed regulation and form for registration are available for inspection at the Bank Examinations Department of our Head Office and at our Buffalo Branch.

ALFRED HAYES,  
*President.*