FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 6459]
[December 29, 1969]

Regulation R, As Amended Effective January 1, 1970

To the Member Banks of the Second Federal Reserve District:

Enclosed is a copy of Regulation R, "Relationships With Dealers in Securities Under Section 32 of the Banking Act of 1933," as amended effective January 1, 1970, of the Board of Governors of the Federal Reserve System. The revised regulation incorporates the amendment, effective January 1, 1970, that the Board announced on November 18; that announcement was contained in our Circular No. 6438, which was sent to you on that date.

Additional copies of the regulation will be furnished upon request.

ALFRED HAYES,
President.

BOARD OF GOVERNORS
of the
FEDERAL RESERVE SYSTEM

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

REGULATION R

(12 CFR 218)

As amended effective January 1, 1970

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

REGULATION R

(12 CFR 218)

As amended effective January 1, 1970

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

SECTION 218.1—PROHIBITIONS

Under section 32 of the Banking Act of 1933 (49 Stat. 709; 12 U.S.C. 78), except as stated in § 218.2, 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 218.2—EXCEPTIONS

Pursuant to the authority vested in it by section 32, the Board of Governors of the Federal Reserve System hereby grants permission[2] for any officer, director, or employee of any member bank of the Federal Reserve System, unless otherwise prohibited,[3] to be at the same time an officer, director, or employee of any corporation or unincorporated association, a partner or employee of any partnership, or an individual, engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through

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* This text corresponds to the Code of Federal Regulations, Title 12, Chapter II, Part 218; cited as 12 CFR 218. The words "this Part", as used herein, mean Regulation R.

[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 (49 Stat. 709; 12 U.S.C. 78), 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.

[3] Section 8 of the Clayton Act (38 Stat. 732, 49 Stat. 718; 15 U.S.C. 19) 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 Part 212 of this Chapter.

Section 17 (c) of the Public Utility Act of 1935 (49 Stat. 831; 15 U.S.C. 79q(c)) 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 10(c) of the Investment Company Act of 1940 (54 Stat. 806; 15 U.S.C. 80a-10(c)) is applicable in certain circumstances to interlocking relationships between banks and registered investment 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 (49 Stat. 856; 16 U.S.C. 825d (b)) 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.

syndicate participation, of only such securities as national banks may lawfully underwrite and deal in pursuant to paragraph Seventh of section 5136, Revised Statutes (12 U.S.C. 24).[4]

SECTION 218.3—AMENDMENTS

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

[4] Made applicable to State member banks by paragraph 20 of section 9 of the Federal Reserve Act (12 U.S.C. 335).

STATUTORY APPENDIX

Section 32 of the Banking Act of 1933 (12 U.S.C. 78) 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.

Paragraph "Seventh" of Section 5136, Revised Statutes (12 U.S.C. 24) reads as follows:

Seventh. To exercise by its board of directors or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes according to the provisions of this chapter. The business of dealing in securities and stock by the association shall be limited to purchasing and selling such securities and stock without recourse, solely upon the order, and for the account of, customers, and in no case for its own account, and the association shall not underwrite any issue of securities or stock: *Provided,* That the association may purchase for its own account investment securities under such limitations and restrictions as the Comptroller of the Currency may by regulation prescribe. In no event shall the total amount of the investment securities of any one obligor or maker, held by the association for its own account, exceed at any time 10 per centum of its capital stock actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund, except that this limitation shall not require any association to dispose of any securities lawfully held by it on August 23, 1935. As used in this section the term "investment securities" shall mean marketable obligations, evidencing indebtedness of any person, copartnership, association, or corporation in the form of bonds, notes and/or debentures commonly known as investment securities under such further definition of the term "investment securities" as may by regulation be prescribed by the Comptroller of the Currency. Except as hereinafter provided or otherwise permitted by law, nothing herein contained shall authorize the purchase by the association for its own account of any shares of stock of any corporation. The limitations and restrictions herein contained as to dealing in, underwriting and purchasing for its own account, investment securities shall not apply to obligations of the United States, or general obligations of any State or of any political subdivision thereof, or obligations issued under authority of the Federal Farm Loan Act, as amended, or issued by the thirteen banks for cooperatives of any of them or the Federal Home Loan Banks, or obligations which are insured by the Secretary of Housing and Urban Development under title XI of the National Housing Act or obligations which are insured by the Secretary of Housing and Urban Development (hereafter in this sentence referred to as the "Secretary") pursuant to section 1713 of this title, if the debentures to be issued in payment of such insured obligations are guaranteed as to principal and interest by the United States, or obligations, participations, or other instruments of or issued by the Federal National Mortgage Association or the Government National Mortgage Association, or such obligations of any local public agency (as defined in section 1460(h) of Title 42) as are secured by an agreement between the local public agency and the Secretary in which the local public agency agrees to borrow from said Secretary, and said Secretary agrees to lend to said local public agency, monies in an aggregate amount which (together with any other monies irrevocably committed to the payment of interest on such obligations) will suffice to pay, when due,

* So in statute as enacted.

the interest on and all installments (including the final installment) of the principal of such obligations, which monies under the terms of said agreement are required to be used for such payments, or such obligations of a public housing agency (as defined in the United States Housing Act of 1937, as amended) as are secured either (1) by an agreement between the public housing agency and the Secretary in which the public housing agency agrees to borrow from the Secretary, and the Secretary agrees to lend to the public housing agency, prior to the maturity of such obligations (which obligations shall have a maturity of not more than eighteen months), monies in an amount which (together with any other monies irrevocably committed to the payment of interest on such obligations) will suffice to pay the principal of such obligations with interest to maturity thereon, which monies under the terms of said agreement are required to be used for the purpose of paying the principal of and the interest on such obligations at their maturity, or (2) by a pledge of annual contributions under an annual contributions contract between such public housing agency and the Secretary if such contract shall contain the covenant by the Secretary which is authorized by section 1421a(b) of Title 42, and if the maximum sum and the maximum period specified in such contract pursuant to section 1421a(b) of Title 42 shall not be less than the annual amount and the period for payment which are requisite to provide for the payment when due of all installments of principal and interest on such obligations: *Provided,* That in carrying on the business commonly known as the safe-deposit business the association shall not invest in the capital stock of a corporation organized under the law of any State to conduct a safe-deposit business in an amount in excess of 15 per centum of the capital stock of the association actually paid in and unimpaired and 15 per centum of its unimpaired surplus. The limitations and restrictions herein contained as to dealing in and underwriting investment securities shall not apply to obligations issued by the International Bank for Reconstruction and Development, the Inter-American Development Bank or the Asian Development Bank, or obligations issued by any State or political subdivision or any agency of a State or political subdivision for housing, university, or dormitory purposes, which are at the time eligible for purchase by a national bank for its own account, nor to bonds, notes and other obligations issued by the Tennessee Valley Authority: *Provided,* That no association shall hold obligations, issued by any of said organizations as a result of underwriting, dealing, or purchasing for its own account (and for this purpose obligations as to which it is under commitment shall be deemed to be held by it) in a total amount exceeding at any one time 10 per centum of its capital stock actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund. Notwithstanding any other provision in this paragraph, the association may purchase for its own account shares of stock issued by a corporation authorized to be created pursuant to sections 3931-3940 of Title 42, and may make investments in a partnership, limited partnership, or joint venture formed pursuant to section 3937-(a) or 3937(c) of Title 42.

Paragraph 20 of section 9 of the Federal Reserve Act (12 U.S.C. 335) reads as follows:

State member banks shall be subject to the same limitations and conditions with respect to the purchasing, selling, underwriting, and holding of investment securities and stock as are applicable in the case of national banks under paragraph "Seventh" of section 5136 of the Revised Statutes, as amended.