

FEDERAL RESERVE BANK  
OF NEW YORK

Circular No. 6702  
March 23, 1971

BANK HOLDING COMPANIES

—Hearings on Proposed Amendments to Regulation Y  
—Amendment to Regulation Y

*To All Banks, and Others Concerned,  
in the Second Federal Reserve District;*

Following is the text of a statement issued yesterday by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today scheduled three separate hearings in April and May on the regulatory amendments it proposed last January as a first step toward implementing the "Bank Holding Company Act Amendments of 1970."

The Board on January 25 proposed ten activities to be regarded under the new law as closely related to banking or managing or controlling banks, and thus permissible for bank holding companies, subject to Board action in individual cases.

Companies subject to the Bank Holding Company Act are required to register with the Federal Reserve and generally must limit their activities to banking and activities closely related to banking. The 1970 amendments extended the Board's regulatory authority over such companies to those that control only one bank.

The schedule of hearings is as follows:

—April 14 on all questions raised by the proposal announced last January except for two activities on which separate hearings will be held as listed below.

—April 16 on one provision of the proposed regulatory amendment that would permit bank holding companies to provide bookkeeping or data processing services for (a) the holding company and its subsidiaries, (b) other financial institutions, or (c) others, provided that the value of services performed by the company for such persons is not a principal portion of the total value of all such services performed.

—May 12 on another provision that would permit such companies to act as insurance agent or broker, principally in connection with extensions of credit by the holding company or any of its subsidiaries.

Under proposed activities to be covered in the April 14 hearing, a bank holding company could apply to the Board for permission to acquire an interest in a company that engages solely in one or more of these activities:

1. Making loans for its own account or for the account of others. This would include, for example, operations as a mortgage, finance or factoring company.
2. Operating as an industrial bank.
3. Servicing loans.
4. Acting as fiduciary.

(Over)

5. Acting as investment or financial adviser.

6. Leasing personal property where the initial lease provides for payment of rentals that will reimburse the lessor for the full purchase price of the property.

7. Acting as insurer for the holding company and its subsidiaries or with respect to insurance sold by the holding company or any of its subsidiaries as agent or broker.

8. Making equity investments in community rehabilitation and development corporations engaged in providing housing and employment opportunities for low and moderate income persons.

The large number of comments already received on the proposed regulatory amendments together with material presented at the hearings will be evaluated by the Board prior to a final decision on changes to be made in its Regulation Y relating to bank holding companies.

Because of the number and variety of comments received and the number of persons who may wish to participate, the Board adopted for the hearing on insurance activities a series of preliminary procedures designed to identify the issues and provide ample opportunity for presentation of differing views. These procedures are set forth in the attached notice of hearing.

Persons interested in appearing at the hearing on data processing activities are invited to focus on the following issues:

— What, if any, limitations should apply to a holding company performing payroll, accounts receivable and payable, and billing services.

— To what extent, if any, and by what measure, should the holding company be limited in the other data processing services that it may perform for persons other than itself, its subsidiaries, and other financial institutions.

In a separate action on another proposal issued last January, the Board adopted, effective immediately, a regulatory amendment spelling out the procedures it will use in implementing section 4(c)12 of the Act. That section permits a company covered by the 1970 amendments to acquire shares of any company — subject to conditions prescribed by the Board — until January 1, 1981, so long as it divests itself by that date of either its bank or of activities unrelated to banking.

Under these procedures, if a company files a irrevocable declaration that it will cease to be a bank holding company by January 1, 1981, it may enter a newly launched activity either directly or through a new subsidiary without further action by the Board unless its authority to do so is suspended by the Board. The same company may acquire a going concern 45 days after it has informed the District Federal Reserve Bank of the proposed acquisition, unless the company is notified to the contrary within that time or is permitted to make the acquisition at an earlier date because of exigent circumstances.

If no such declaration is filed, no acquisitions may be made or activity commenced under section 4(c)12 without prior Board approval. In such cases, the Board generally will approve only those applications in which the company demonstrates that the activities sought are necessary to enable the more efficient marketing of assets subject to divestiture.

Copies of the notices of hearings and of the amendment to Regulation Y, including a sample form of irrevocable declaration, will be sent to you shortly.

Alfred Hayes,  
President.