FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 6732
May 17, 1971]

BANK HOLDING COMPANIES

Amendment to Regulation Y
Effective July 1, 1971

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

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

The Board of Governors of the Federal Reserve System today announced a regulatory amendment, effective July 1, specifying the kinds of activities in which subsidiaries of bank holding companies may engage on the basis of section 4(c)(5) of the Bank Holding Company Act.

That section relates to the acquisition by a holding company of shares eligible for investment by a national bank. Under the amendment, bank holding companies may acquire shares that are explicitly eligible for investment by a national bank under Federal statute law, such as shares of a small business investment company. Banks in a holding company are not so restricted. National banks in a holding company may acquire shares in accordance with the rules of the Comptroller of the Currency. So far as Federal law is concerned, State-chartered banks in a holding company may acquire shares in accordance with the rules of the Board.

Action by the Board was taken in connection with its over-all plan to implement the "Bank Holding Company Act Amendments of 1970." The Board has under consideration a proposed list of ten activities to be regarded under section 4(c)(8) of the Act as closely related to banking, or managing or controlling banks, and thus permissible for bank holding companies subject to Board approval in individual cases.

In submitting the amendment to its Regulation Y for publication in the *Federal Register,* the Board of Governors issued the following additional statement:

In its notice of proposed rule making published in the Federal Register on January 29, 1971 (36 F.R. 1430), the Board of Governors indicated that it was considering limiting the scope of acquisitions by bank holding companies that may be made on the basis of §4(c)(5) of the Act. Under that section, the prohibition against holding companies acquiring interests in nonbanking organizations does not apply to shares of the kinds and amounts eligible for investment by national banks under the provisions of §5136 of the Revised Statutes.

As indicated in that notice, under §4(c)(8) of the Act as amended by the 1970 amendments the Board is required to consider acquisitions by a bank holding company on the basis of that section not only from the standpoint of whether the activities of the company to be acquired are closely related to banking, but also from the standpoint of antitrust and related public interest considerations.

In view of that responsibility, the Board believes that it should exercise its general regulatory authority over holding companies under §5 of the Act to limit the scope of activities that may be engaged in on the basis of §4(c)(5). In January the Board indicated that it was considering limiting the permissible activities of all subsidiaries established in the future under §4(c)(5) to those engaged in lending and fiduciary activities commenced *de novo,* except where the shares involved are of the kinds and amounts explicitly eligible for investment by a national bank under Federal statute law.

The Board has reexamined this matter in the light of comments received and concluded as follows:

(1) The Board should not at this time apply restrictions to subsidiaries of banks. This decision is believed warranted by considerations of equity between banks that are and are not members of bank holding companies and by the absence of evidence that acquisitions by holding company banks are resulting in evasions of the purposes of the Act. The merits of this decision will be reviewed by the Board from time to time in the light of its experience in administering the Act.

(2) The Board should limit the acquisitions that may be made on the basis of §4(c)(5) by holding companies and their subsidiaries that are not banks or subsidiaries of banks to shares of the kinds and amounts explicitly eligible for investment by a national bank under Federal statute law. This decision will facilitate the orderly administration of the Act by avoiding to the extent possible the need for interpretations of the scope of §4(c)(5) relating to permissible activities, permissible locations, and applicable limitations as to borrowing and lending powers.

Enclosed is a copy of the amendment, effective July 1, 1971, implementing the Board's decisions. Additional copies of this circular and its enclosure will be furnished upon request.

ALFRED HAYES,
President.

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Federal Reserve Bank of St. Louis

Board of Governors of the Federal Reserve System

BANK HOLDING COMPANIES

AMENDMENT TO REGULATION Y

Effective July 1, 1971, section 222.4 of Regulation Y is amended by changing the title of that section and by adding a new paragraph, as follows:

SECTION 222.4 — NONBANKING ACTIVITIES

* * *

(*e*) **Activities of companies in which national banks may invest.**—No bank holding company or subsidiary thereof that is not a bank or subsidiary of a bank may, after June 30, 1971, acquire shares on the basis of §4(c)(5) of the Act unless such shares are of the kinds and amounts explicitly eligible by Federal statute for investment by a national bank. A national bank or a subsidiary thereof may acquire or retain shares on the basis of §4(c)(5) in accordance with the rules and regulations of the Comptroller of the Currency. So far as Federal law is concerned, a State-chartered bank or a subsidiary thereof may (1) acquire or retain shares on the basis of §4(c)(5) if such shares are of the kinds and amounts explicitly eligible by Federal statute for investment by a national bank and (2) acquire or retain all (but, except for directors' qualifying shares, not less than all) of the shares of a company that engages solely in activities in which the parent bank may engage, at locations at which the bank may engage in the activity, and subject to the same limitations as if the bank were engaging in the activity directly.

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