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FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045

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February 18, 1972

To the Chief Executive Officer of Each State Member Bank and of Each Bank Holding Company in the Second Federal Reserve District:

Following is the text of a statement issued February 15 by the Committee on Interest and Dividends:

> The Committee on Interest and Dividends today issued two technical revisions to its Guidelines for Dividend Payments. The Guidelines request companies generally to limit their dividend increases during 1972 to 4 per cent over the largest per share dividend paid in calendar year 1971 or in fiscal year 1969, 1970 or 1971.
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> The Guidelines originally requested companies that paid little or no dividends on common stock in the base periods to limit cash dividends to no more than 15 per cent of their 1971 net income (after taxes and dividends on preferred stock). The Committee has revised this limit to 25 per cent to minimize interference with normal business practices of young or growing companies.
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> At the same time, the Committee clarified its exemption of pass-through situations by explicitly including in the exemption any company that is principally owned (defined as ownership of at least 80 per cent of a firm's common stock) by a parent company that is subject to the Guidelines. This percentage parallels provisions of the Internal Revenue Code for consolidation of corporations' income for tax purposes.

Printed on the following pages is a copy of the revised guidelines. We wish to remind you, as we indicated when we sent you the original guidelines in November 1971, that all banks should adhere to the spirit of the guidelines even though they may not be specifically covered by the dividend limitations and that all bank holding companies, regardless of the number of their shareholders, should be governed by the guidelines.

Alfred Hayes
President

COMMITTEE ON INTEREST AND DIVIDENDS
Washington, D. C. 20551

Revised
February 15, 1972

GUIDELINES FOR DIVIDEND PAYMENTS
(Issued pursuant to Executive Order 11627)

1. General Guideline. Cash dividends on any class of common stock to be paid in 1972 should be declared at such rates that the aggregate annual payment per share (adjusted for stock splits and issuance of stock dividends) will not exceed by more than 4 per cent the highest aggregate annual payment per share in any of the company's fiscal years ending in 1969, 1970, or 1971 (adjusted through December 31, 1971 for stock splits and issuance of stock dividends).

2. Guideline adjustments. (a) A company that paid no dividend on common stock in the years enumerated in Paragraph 1 or whose permissible dividend payments in 1972, under Paragraph 1, would aggregate less than 25 per cent of net income (after taxes and dividends on preferred stock) in its fiscal year ending in 1971 may declare cash dividends on common stock at such rates that the aggregate dividends paid on common stock in 1972 will not exceed 25 per cent of said 1971 net income.

(b) A company whose base for calculating permissible dividend payments in 1972, under Paragraph 1, is less than its aggregate dividend payments per share in the calendar year 1971, may declare cash dividends on common stock at such rates that the aggregate annual payment per share in 1972 (adjusted for stock splits and issuance of stock dividends) will not exceed by more than 4 per cent the aggregate annual payment in the calendar year 1971 (adjusted through December 31, 1971 for stock splits and issuance of stock dividends).

(c) A company that, prior to August 15, 1971, declared a regular cash dividend at an increased rate that was not subsequently reduced, and can establish that it intended to continue that rate, may adopt said increased rate, on an annual basis, as its base (adjusted for stock splits and stock dividends) for the permissible 4 per cent increase.

(d) When two or more companies combine in a transaction based on issuance of stock--whether by merger, consolidation, acquisition of stock (by an existing company or a new company), or acquisition of assets of a going concern--and these Guidelines thereafter apply to only one company, the base for its permissible 1972 dividends may be calculated by either of the following methods:

(i) Combine the companies' dividend records (or their 1971 net incomes if Paragraph 2(a) is applied); or

(ii) Use only the dividend record of the principal predecessor company--that is, the company whose stockholders hold, immediately after said transaction, the largest number of shares of common stock of the company whose permissible 1972 dividends are being calculated.

3. Companies to which the Guidelines apply. (a) Except as provided in Paragraph 3(b), these Guidelines apply to any company that (i) has more than $1,000,000 in total assets and a class of common stock

held of record by 500 or more persons, and (ii) is subject to the reporting requirements of section 13 of the Securities Exchange Act of 1934 or is an insurance company with capital stock.

(b) These Guidelines do not apply to (i) a regulated investment company, real estate investment trust, or personal holding company as defined in Subchapters M and G of the Internal Revenue Code, or (ii) a company 80 per cent or more of whose common stock is owned by a company to which the Guidelines apply.

4. Effective date; prior guidelines. These Guidelines are effective February 15, 1972 and supersede prior guidelines with respect to dividends to be paid in 1972. Dividends to be paid in 1971 remain subject to the prior guidelines issued by the Cost of Living Council, except dividends of companies excluded by Paragraph 3(a) and (b) hereof.