

FEDERAL RESERVE BANK  
OF NEW YORK

[Circular No. 6952]  
June 9, 1972]

NONBANKING ACTIVITIES OF BANK HOLDING COMPANIES  
Management Consulting Activities and Investment or Financial Adviser Activities

To All Bank Holding Companies, and Others Concerned,  
in the Second Federal Reserve District:

The following is quoted from the text of a statement issued June 6 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System announced today its denial of applications from two bank holding companies to acquire firms that engage in management consulting activities. At the same time, the Board said it has decided not to include management consulting on its list of activities in which bank holding companies may engage.

The applications are from First Commerce Corporation, New Orleans, Louisiana, to acquire W. R. Smolkin & Associates, Inc., New Orleans, and from Marine Midland Banks, Inc., Buffalo, New York, to acquire Carter H. Golembe Associates, Inc., Washington, D.C.

The Board had previously indicated that acting as a management consultant was not within the scope of the activities authorized to be conducted by bank holding companies under section 4(c)(8) of the Bank Holding Company Act and that it was then considering whether to expand its list of activities to include management consulting.

In a related action, the Board adopted a clarifying amendment to the provision of Regulation Y which authorizes bank holding companies to act "as investment or financial adviser."

Enclosed is a copy of the amendment to Regulation Y referred to in the above statement. The text of the Board of Governors' orders denying the applications to engage in management consulting activities will be published shortly in the *Federal Register* and in the June 1972 issue of the *Federal Reserve Bulletin*.

ALFRED HAYES,  
*President.*

Board of Governors of the Federal Reserve System

BANK HOLDING COMPANIES

AMENDMENTS TO REGULATION Y

Effective June 6, 1972:

1. Section 225.4(a)(5) is amended to read as follows:

SECTION 225.4—NONBANKING  
ACTIVITIES

(a) **Activities closely related to banking or managing or controlling banks.** \* \* \* The following activities have been determined by the Board to be so closely related to banking or managing or controlling banks as to be a proper incident thereto:

\* \* \*

(5) Acting as investment or financial adviser to the extent of (i) serving as the advisory company for a mortgage or a real estate investment trust; (ii) serving as investment adviser, as defined in section 2(a)(20) of the Investment Company Act of 1940, to an investment company registered under that Act; (iii) providing portfolio investment advice<sup>1</sup> to any other

<sup>1</sup> The term "portfolio investment" as used herein is intended to refer generally to the investment of funds in a "security" as defined in section 2(1) of the Securities Act of 1933 (15 U.S.C. sec. 77a) or in real property interests, except where the real property is to be used in the trade or business of the person being advised. In furnishing portfolio investment advice, bank holding companies and their subsidiaries shall observe the standards of care and conduct applicable to fiduciaries.

person; (iv) furnishing general economic information and advice, general economic statistical forecasting services and industry studies;<sup>2</sup> and (v) providing financial advice to State and local governments, such as with respect to the issuance of their securities;

<sup>2</sup> This is to be contrasted with "management consulting" which the Board views as including, but not limited to, the provision of analysis or advice as to a firm's (i) purchasing operations, such as inventory control, sources of supply, and cost minimization subject to constraints; (ii) production operations, such as quality control, work measurement, product methods, scheduling shifts, time and motion studies, and safety standards; (iii) marketing operations, such as market testing, advertising programs, market development, packaging, and brand development; (iv) planning operations, such as demand and cost projections, plant location, program planning, corporate acquisitions and mergers, and determination of long-term and short-term goals; (v) personnel operations, such as recruitment, training, incentive programs, employee compensation, and management-personnel relations; (vi) internal operations, such as taxes, corporate organization, budgeting systems, budget control, data processing systems evaluation, and efficiency evaluation; or (vii) research operations, such as product development, basic research, and product design and innovation. The Board has determined that "management consulting" is not an activity that is so closely related to banking or managing or controlling banks as to be a proper incident thereto.

2. Footnote 1, to section 225.4(b)(1), and footnote 2, to section 225.4(d), are redesignated footnotes 3 and 4, respectively.

3. The footnote to section 225.4(a)(7) is deleted.