

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 7178 ]  
July 6, 1973

PROPOSED AMENDMENT TO REGULATION Y  
Management Consulting Services for Non-Affiliated Banks

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

Following is the text of a statement issued June 27 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today invited comments on a proposal to permit bank holding companies to perform management consulting services for non-affiliated banks. The proposal was published for comment to be received through July 31, 1973.

The proposal is one of a series the Board has made concerning activities that may be regarded as closely related to banking under the 1970 Amendments to the Bank Holding Company Act of 1956. Such activities, if approved, become permissible for bank holding companies subject to Board approval in individual cases.

The Board has previously determined that, except for general management consulting services that are expressly authorized by statute to be furnished by a bank holding company to its affiliates, a bank holding company may not engage in general management consulting.

Printed below is the text of the proposed amendment to Regulation Y. Comments thereon should be submitted by July 31, and may be sent to our Bank Applications Department.

ALFRED HAYES,  
*President.*

(Reg. Y)  
BANK HOLDING COMPANIES  
Nonbanking Activities

The Board of Governors is considering further implementation of its regulatory authority under section 4(c)(8) of the Bank Holding Company Act to permit bank holding companies to perform management consulting services for non-affiliated banks. Such activities are of the type presently performed through correspondent banking relationships. The proposal would permit such activities to be performed by a nonbank subsidiary of a holding company or the holding company directly, would require explicit pricing for such services, and would foster competition for such services.

In the proposal, the Board takes into account the possibility that the management consulting arrangement involved could be used as a device to control a bank that is not part of the same holding company system, contrary to the purposes of the Act. In order to guard against such a result, such services would not be permitted to be furnished to a non-affiliated bank if the bank holding company or any of its subsidiaries owned or controlled any equity securities in such bank, or any officer, director, or employee of the bank holding company or any of its subsidiaries serves at the same time in a similar capacity with the recipient bank. Such conditions are minimum safeguards only and in an appropriate case the rebuttable presumption of control specified in section 225.2(b)(3) of Regulation Y may still

be applied. Further, in order to minimize possible conflicts of interests, a consultant company furnishing services pursuant to this authority would be required to disclose to each potential client bank the names of banks with which the consultant is affiliated and the names of all other client banks located in the same market area as the client bank.

The Board has previously determined that, except for general management consulting services that are expressly authorized by statute to be furnished by bank holding companies to its affiliates, a bank holding company may not engage in general management consulting. (12 CFR 225.126; 1972 Federal Reserve Bulletin 571.) The present proposal relates to the furnishing of management consulting services to non-affiliated banks and arises, in part, from a pending application by The Citizens & Southern Corporation, Charleston, South Carolina, for permission to perform for non-affiliated banks, through a proposed subsidiary, Bank Management Advisory Services, Inc., Charleston, South Carolina, management consulting services of a type similar to that which would be authorized by the proposed regulation. Thus, the proposed amendment is limited to management consulting services for non-affiliated banks and does not contemplate the furnishing of such services by a bank holding company to unaffiliated, non-

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banking companies. The proposed bank management consulting activity and the application of The Citizens & Southern Corporation are subject to the procedures of §225.4(b) of Regulation Y.

Accordingly, the Board proposes to amend §225.4(a) of Regulation Y to permit bank holding companies, subject to the procedures of §225.4(b), to perform management consulting services for banks only. The text of the proposed amendment reads 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 a proper incident thereto:

\* \* \*

(11) providing management consulting services for non-affiliated banks, including, but not limited to, site planning and evaluation, advice regarding bank mergers and the establishment of new branches, personnel recruitment and training, marketing, capital adequacy and planning, accounting procedures, investment advice (as authorized in subparagraph (5)), and computer operations, *provided* that (i) neither the bank holding company nor any of its subsidiaries own or control any

equity securities in the client bank; (ii) no officer, director, or employee of the bank holding company or any of its subsidiaries serves as an officer, director, or employee of the client bank; (iii) the services are performed on an explicit fee basis without regard to correspondent balances maintained by the client bank at any subsidiary bank of the bank holding company; and (iv) disclosure is made to each potential client bank of (a) the names of all banks which are affiliates of the consulting company and (b) the names of all other client banks located in the same market area as the client bank.

To aid in the consideration of these matters by the Board, interested persons are invited to submit relevant data, views, or argument. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551, to be received not later than July 31, 1973. Such material will be made available for inspection and copying upon request except as provided in section 261.6(a) of the Board's Rules Regarding Availability of Information. The application of The Citizens & Southern Corporation may be inspected at the office of the Board of Governors or at the Federal Reserve Bank of Richmond.

Board of Governors of the Federal Reserve System,  
June 18, 1973.