

**FEDERAL RESERVE BANK  
OF NEW YORK**

[ Circular No. **7271** ]  
[ November 15, 1973 ]

**BANK HOLDING COMPANIES**  
**Courier Services Added to List of Permissible Activities**

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

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

The Board of Governors of the Federal Reserve System today announced amendment of its Regulation Y to permit bank holding companies to engage in the courier service business under an extensive set of limitations and conditions designed to enhance competition and ensure other public benefits.

At the same time, the Board announced that with respect to armored car services, it finds the hearing record inconclusive and is consequently taking no action on this proposed activity.

Together with its decisions, the Board issued a Statement summarizing the record compiled from extensive proceedings over the past two years—including hearings and a Hearing Officer's recommendations—on which the Board based its decisions. The Statement also included a record of the Board's procedural rulings and the conclusions reached in deciding that courier services are closely related to banking. The Board's Order amending Regulation Y, and its Statement, are attached.

The Board's Order listed the following types of courier services that bank holding companies could provide, subject to approval of individual applications:

Courier services for:

- the internal operations of the applying holding company and its subsidiaries;
- checks, commercial papers, documents and written instruments as are exchanged among banks and banking institutions (but excluding currency and bearer type negotiable instruments);
- data processing materials such as audit and accounting media of a banking or financial nature, and business records and documents used in processing such media.

The Board accompanied its ruling regarding courier services with an interpretation regarding the scope of courier activities the Board intends to permit, and set forth three principles that should be followed to ensure maintenance of competition among couriers. The interpretation said:

The Board's amendment of Regulation Y which adds courier services to the list of closely related activities is intended to permit bank holding companies to transport time critical materials of limited intrinsic value of types utilized by banks and bank related firms in performing their business including check clearing and other activities such as the processing of financially related economic data. The authority is not intended to permit holding companies to engage generally in the provision of transportation services. However, the furnishing of courier services for non-financially related material (such as human blood, exposed and processed film, repair parts and cut flowers) upon the specific unsolicited request of a third party when courier services are not otherwise reasonably available may be regarded as an incidental activity of a bank related courier.

The Board said it believes that adherence to the following principles will eliminate or reduce to an insignificant degree any possibility of unfair competition:

- “a. A holding company courier subsidiary . . . should be a separate independent corporate entity, not merely a servicing arm of a bank.

- “b. As such, the subsidiary should exist as a separate, profit-oriented operation and should not be subsidized by the holding company system.
- “c. Services performed should be explicitly priced, and shall not be paid for indirectly, for example, on the basis of deposits maintained at or loan arrangements with affiliated banks.”

Pursuant to the intended scope of permissible courier services, and the above principles, the Board said entry of holding companies into courier activities—that is, Board action upon applications—would be conditioned as follows:

- The courier subsidiary shall perform services on an explicit fee basis and shall be structured as an individual profit center . . . The Board may regard operating losses sustained over an extended period as being inconsistent with continued authority to engage in courier services.
- Courier services performed on behalf of an affiliate's customer shall be paid for by the customer on a direct basis, and not by indirect arrangements.
- The courier subsidiary should make publicly known its minimum rate schedule for performing services, must furnish comparable services at comparable rates for any requesting bank or data processing firm providing financially related data processing services unless compliance would be beyond the courier subsidiary's practical capacity, and will be expected to maintain, for at least two years, any applications for service that it denies, together with its reasons.

In its Statement accompanying its decision the Board said it was influenced in determining courier services to be closely related to banking by the historical evidence indicating that commercial courier services as presently conducted began as a means of expediting the movement of checks for clearance and were accordingly, and are still, chiefly utilized by the banking community. Further, the Board noted, courier transportation of checks for clearance has become a vital element in the payments mechanism, it is central to the operation of banks with branching systems, and is important to bank-related data processing or to data processing generally.

In line with its ruling as to the permissible scope of courier services, the Board's Statement noted that historically courier services have involved transportation of things that have a critical time schedule, are small in bulk, light in weight and require only ordinary security measures.

As to public benefits, the Board found that the record suggests concentration in the courier industry is high. Consequently, the Board concluded that the entry of bank holding companies into the courier field could benefit the public, and add to the convenience of banking, by injecting new competition.

The Board itself will consider requests to engage in courier services because it wishes to examine the public benefit aspect of each application closely. Accordingly, the Board suspended in this case the procedures ordinarily available to bank holding companies that wish to engage *de novo* in an activity determined by the Board to be closely related to banking.

The Board denied all exceptions made to the Hearing Officer's Recommended Decision, to the extent they are inconsistent with the Board's Order and interpretation, and its accompanying Statement, and denied requests for further oral arguments and motions for inclusion of additional material in the record of proceedings in the case. With respect to exceptions to the Hearing Officer's findings and recommendations, the Board said that many of the controverted issues could be better explored in connection with individual applications to engage in courier services. The Board concluded that further oral arguments would be unlikely to add information not already in the record.

The Board proposed—for public comment—in November 1971 that courier and armored car services might be made permissible activities for bank holding companies. After receiving comment, the Board scheduled a hearing for December 1971. This was postponed twice, at the request of interested parties. A Hearing Officer was appointed and hearings were conducted February 29 and March 1, 1972, with regard to courier services. Written statements were submitted on armored car services, consideration of which had meantime been split from courier services. The Hearing Officer filed his recommendations with the Board in June 1972. Since that time, the Board has considered the record, exceptions taken to the Hearing Officer's recommendations, requests for further oral hearings, and has asked for, received and made available to all parties additional information.



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

By notice of proposed rulemaking published in the *Federal Register* on November 17, 1971 (36 F.R. 21897), the Board of Governors proposed to add armored car and courier services to the list of activities that it has determined under section 4(c)(8) of the Bank Holding Company Act to be closely related to banking or managing or controlling banks by amending section 225.4(a) of the Board's Regulation Y. Subsequently, the Board designated a hearing officer to conduct the proceedings and ordered separate, but consecutive, hearings on armored car and courier services. The Hearing Officer conducted a hearing on February 29 and March 1, 1972 and forwarded a Recommended Decision to the Board in June 1972. Comments and exceptions thereto were filed by the participants in the proceeding.

The Board has considered all of the material submitted by the participants to the Hearing Officer, those materials in the Board's public information file which were considered by the Hearing Officer, the Hearing Officer's Recommended Decision, comments and exceptions to the Recommended Decision, and certain additional material which was brought to the attention of all parties. After considering all relevant aspects of the proposal to add armored car and courier services to the list of closely related activities, the Board has determined to add certain courier activities to the list and to take no action to amend Regulation Y with regard to the armored car services.

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All exceptions to the Hearing Officer's Recommended Decision are hereby denied to the extent they are inconsistent with this Order and accompanying Statement.

Requests for oral argument before the Board with regard to courier services and motions for the inclusion of additional material in the record of these proceedings have been considered by the Board and are hereby denied for the reasons set forth in the Board's accompanying Statement.

The texts of the interpretation and of the Board's Statement accompanying its decision are printed below. A copy of the amendment to Regulation Y is enclosed.

Additional copies of this circular and its enclosure will be furnished upon request.

ALFRED HAYES,  
*President.*

### (Regulation Y)

## BANK HOLDING COMPANIES Interpretation Regarding Courier Activities

### § 225.129 Activities closely related to banking.

*Courier activities.* The Board's amendment of § 225.4(a), which adds courier services to the list of closely related activities is intended to permit holding companies to transport time critical materials of limited intrinsic value of the types utilized by banks and bank-related firms in performing their business activities. Such transportation activities are of particular importance in the check clearing process of the banking system, but are also important to the performance of other activities, including the processing of financially-related economic data. The authority is not intended to permit holding companies to engage generally in the provision of transportation services. However, the furnishing of courier services for non-financially-related material upon the specific, unsolicited request of a third party when courier services are

not otherwise reasonably available may be regarded as an incidental activity of a bank-related courier.

During the course of the Board's proceedings pertaining to courier services, objections were made that courier activities were not a proper incident to banking because of the possibility that holding companies would or had engaged in unfair competitive practices. The Board believes that adherence to the following principles will eliminate or reduce to an insignificant degree any possibility of unfair competition:

- a. A holding company courier subsidiary established under § 4(c)(8) should be a separate, independent corporate entity, not merely a servicing arm of a bank.
- b. As such, the subsidiary should exist as a separate, profit-oriented operation and should not be subsidized by the holding company system.



- c. Services performed should be explicitly priced, and shall not be paid for indirectly, for example, on the basis of deposits maintained at or loan arrangements with affiliated banks.

Accordingly, entry of holding companies into courier activities on the basis of § 4(c)(8) will be conditioned as follows:

1. *The courier subsidiary shall perform services on an explicit fee basis and shall be structured as an individual profit center designed to be operated on a profitable basis. The Board may regard operating losses sustained over an extended period as being inconsistent with continued authority to engage in courier activities.*

2. *Courier services performed on behalf of an affiliate's customer (such as the carriage of incoming cash letters) shall be paid for by the customer. Such payments shall not be made indirectly, for example, on the basis of imputed earnings on deposits maintained at or of loan arrangements with subsidiaries of the holding company.*

Concern has also been expressed that bank-affiliated courier services will be utilized to gain a competitive advantage over firms competing with other holding company affiliates. To reduce the possibility that courier affiliates might be so employed, the Board will impose the following third condition:

3. *The courier subsidiary shall, when requested by any bank or any data processing firm providing financially-related data processing services which firm competes with a banking or data processing subsidiary of Applicant, furnish comparable service at comparable rates, unless compliance with such request would be beyond the courier subsidiary's practical capacity. In this regard, the courier subsidiary should make known to the public its minimum rate schedule for services and its general pricing policies thereto. The courier subsidiary is also expected to maintain for a reasonable period of time (not less than two years) each request denied with the reasons for such denial.*

By order of the Board of Governors, effective November 15, 1973.

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Statement By  
Board of Governors of the Federal Reserve System  
Regarding Bank Holding Companies Performing  
Armored Car and Courier Services  
Pursuant to Section 4(c)(8) of the Bank Holding Company Act

**I. Procedural Background.**

By notice published November 17, 1971 (36 F.R. 21897), the Board announced proposed rulemaking under § 4(c)(8) of the Bank Holding Company Act to permit holding companies to engage in "performing or carrying on armored car or courier services." A hearing was scheduled to be held before available members of the Board on December 10, 1971. A motion for an extension of time and for the institution of formal rulemaking procedures was filed by the National Courier Association and the National Armored Car Association. The Board granted the motion in part by delaying the hearing date to January 19, 1972, but denied the request for formal rulemaking procedures conducted in accordance with §§ 556 and 557 of Title 5 of the United States Code (37 F.R. 938). Subsequently, the Board further postponed the hearing until February 10, 1972, and designated a hearing officer to conduct the proceedings (37 F.R. 1251). The Board stated that although the hearing would not be conducted pursuant to §§ 556 and 557 of Title 5, a more formal proceeding than originally proposed would be conducted. At the same time, the Board granted a request for separate consideration of armored car and courier services, denied requests for reconsideration of the request for formal proceedings under §§ 556 and 557 of Title 5, and denied a request for access to intra-agency memoranda considered by the Board in deciding to announce its proposed rule-

making regarding armored car and courier services. The designated Hearing Officer held a prehearing conference on February 4, 1972 and postponed the scheduled hearings until February 29. On February 29 and March 1, 1972, a hearing was conducted with regard to courier services. Written statements were submitted on the armored car activity, but no separate oral presentations were made with regard to that activity.<sup>1</sup> The Hearing Officer filed his Recommended Decision, and comments and exceptions thereto were filed by the parties. The Board requested certain additional material to supplement the record and all parties were apprised of the request and the replies thereto.

Among the exceptions filed were objections that the proceedings were not conducted in accordance with §§ 556 and 557 of Title 5, that the Hearing Officer failed to permit cross-examination by parties, and that he erred in relying upon material in the Board's public information file, almost all of which had been submitted by the public in response to the Board's November notice of proposed rulemaking. The Board has previously determined that its rulemaking procedures under section 4(c)(8) are legislative rather than adversary in nature and are not subject to the procedures of §§ 556 and 557 of Title 5. The Board

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1. One oral presentation made during the courier hearing pertained primarily to armored car services.



has concluded that the written interrogatories permitted by the Hearing Officer in the interest of a more complete record and the Hearing Officer's reliance upon the Board's public file relating to the proceedings was appropriate to the rulemaking nature of the hearing and consistent with the Board's Order granting his authority. Many of the controverted issues between the participants in these proceedings, for example, the private pricing policies of an individual courier affiliate, may be more appropriately explored at the time individual bank holding companies apply to engage in courier activities.

Three of the participants in the courier proceedings have requested oral argument before the Board. The Board has denied those requests in the accompanying Order because it concluded that oral argument would be unlikely to provide information not presently in the record. Purolator Courier Corporation has also made a motion to include in the record correspondence between itself and the Board related to permitting existing courier subsidiaries of bank holding companies to bid for and to be awarded contracts to provide courier services for the Regional Check Processing Centers of the Federal Reserve Bank of Richmond. An objection to the holding companies bidding for the courier services contracts and a request to reopen the record were also filed by the Independent Bankers Association of America. The Board has denied these motions to incorporate additional material into the record because in its judgment such material is not relevant to the issue of whether courier services are so closely related to banking or managing or controlling banks as to be a proper incident thereto.

## II. Courier Services.

### A. Relationship to Banking.

When the Board announced its proposal to include courier activities as a permissible activity for bank holding companies, the Board stated it understood that courier services involve

... the transportation of important items having critical time schedules. The items involved are generally not bearer type instruments, and accordingly, require only the ordinary security measures accorded any confidential business papers. Among the most common documents and related items carried by messenger service are checks, drafts, money orders, travelers checks, commercial papers, written instruments and data processing material.

The record indicates that courier services involve transportation of any item with a critical time schedule, provided such items are small in bulk, light in weight, and require only ordinary security measures. Thus, in addition to the items listed above, such items as human blood, exposed and processed film, repair parts, and cut flowers are moved by courier.

Commercial courier services as they are presently conducted began as a means of expediting the movement of checks, and accordingly such services were utilized primarily by banks and the banking community. Prior to the development of commercial courier services, checks had been moved by mail, bus, rail, and private carriage (including messengers). Although in recent years the percentage of revenues derived from courier services performed for the banking community appears to have declined, the banking community remains the primary source of courier revenues.

It appears to be undisputed that courier services for cash letters<sup>2</sup> play a vital role in the check clearing process. Similarly, it appears undisputed that courier services are important to bank-related data processing or to data processing generally.

The record indicates that a number of banks, particularly those which operate a significant number of branches, engage in the transportation of such items as checks, internal memoranda and data processing material between branches, and that three bank holding companies, all of which became subject to the Bank Holding Company Act as a result of the 1970 Amendments, are engaged in providing "for hire" courier service.

Opponents of holding company entry contend that courier services are essentially transportation services that require technology and expertise having little in common with traditional banking activities and should not be regarded as closely related to banking or managing or controlling banks on the basis that banks are the primary user of such services. Those supporting entry argue that courier services are closely related to banking and managing and controlling banks in the sense of being an increasingly integral part of modern day banking with its emphasis on high speed computers and the importance of swift bank clearances. They also rely upon decisions of the Interstate Commerce Commission which recognize the transportation of cash letters as a distinct type of contract carriage treating all banks as one shipper. The Hearing Officer finds that courier service is an essential part of the present process by which banks effect check collections and also is essential to the performance of data processing activities by banks or nonbanks for banks and is thus closely related to banking. His recommendation would also permit the carriage of financially-related data processing materials, such as audit media utilized in the preparation of payrolls, for nonbank customers. Transportation of the type afforded by a courier service frequently is necessary to the efficient and timely processing of such audit media.

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2. The term "cash letters" commonly refers to a closed envelope, package or pouch sent by one bank to another bank or clearing center, containing checks, drafts, and money orders which have been cashed or deposited in a bank by its customers and which are being forwarded to another bank or clearing center for processing. The checks, drafts, and money orders are restrictively endorsed and are tabulated on an enclosed document.



Among the exceptions filed are those objecting to the Hearing Officer's determination insofar as any for hire courier activities are found to be closely related to banking and those which characterize the Hearing Officer's proposed definition of permissible courier services as ambiguous.

The Board finds that the transportation of cash letters has been so integrated into the process by which checks are collected as to be part of the present payments mechanism. The transportation of data processing materials (such as materials utilized in demand deposit accounting) between banks appears to be in connection with the provision of correspondent bank services and may be in conjunction with the processing of cash letters. The transportation of financially-related data processing materials is related to, and supports the provision of, data processing services of types furnished by banks and bank-related companies. Accordingly, the Board has concluded that courier services of the type described above are closely related to banking or controlling or managing banks. The Board has revised the Hearing Officer's proposed definition of permissible courier services for greater clarity.

#### B. Public Benefits Considerations.

*The Courier Industry.* The courier industry provides the portal-to-portal transportation of important items with critical time schedules. The time periods involved are of relatively short duration—usually less than 12 hours. There appear to be only a limited number of courier firms having substantial operations in terms of revenues and geographic areas served, although many smaller courier companies operate on a local basis. The record suggests concentration in the courier industry is high, and the size distribution within the industry highly skewed with the pioneer firm being by far the largest firm. The relevant geographic market for evaluating the competitive effects of a given holding company entry would appear to be local or regional in nature.

The economic unit of the courier industry is the route consisting of a cluster of customers served by the same vehicle. Each route is limited with respect to the number and location of customers that can be served as determined by mileage and time factors, traffic density, road conditions and the proximity of customers to one another. The record indicates there are many routes presently served by only one courier firm.

The provision of for hire courier services may be regulated by individual States with respect to intrastate transportation<sup>3</sup> and by the Interstate Commerce Commission with respect to interstate transportation. Some states do not regulate courier services, and there are numerous exceptions to the Interstate Commerce

Act (particularly with regard to carriage within metropolitan areas) which exempt courier companies from any requirement of approval for entry.

*Contentions of the Parties.* The main thrust of the arguments of those favoring holding company entry is that due to the lack of competition in many areas of the country, the courier industry has not satisfactorily met all of the transportation needs of the banking community. Accordingly, holding company entry will increase competition within the courier industry and lead to greater convenience and increased efficiencies for those utilizing courier services. Opponents of the proposed regulation assert that the courier industry is presently highly competitive and holding company entry is motivated by the desire to utilize courier services as a means of furthering the business goals of their banking subsidiaries. Accordingly, holding company entry will lead to decreased and unfair competition as well as creating a possibility of other adverse effects. They further argue that holding company entry will violate State bank branching laws and the prohibition of the payment of interest on demand deposits.

*The Hearing Officer's Views.* The Hearing Officer concluded that the record would not support a determination that all holding company entries into the courier business would be in the public interest. However, implicit in his recommendation is a finding that holding company entry is likely to be in the public interest in a sufficient number of instances to justify a conclusion that courier services, as he defines and conditions them, are so closely related to banking as to be a proper incident thereto. He further finds that neither Regulation Q nor the prohibitions in many States of branch banking constitute a real impediment to holding companies engaging in courier services.

The conditions he recommends essentially require: (1) a bank holding company and its courier affiliate shall not represent courier services as free and shall make available to prospective users the schedule of minimum rates and charges for the service and policies and practices in relation thereto; and (2) a courier subsidiary shall, when requested by any bank competing with a subsidiary bank of the holding company, furnish comparable service at comparable rates to such competing bank, unless compliance with such request is beyond its practical capacity.

*Comments and Exceptions to the Recommended Decision.* Among the comments and exceptions filed were objections to the lack of a specific conclusion that courier services are a proper incident to banking, objections as to effectiveness of the proposed conditions, and objections on the basis that the Hearing Officer understated the structural dangers and overestimated the ability of regulatory agencies to focus upon and curtail unfair competitive practices. Exceptions were also filed with regard to the Hearing Officer's conclusion that neither Regulation Q nor State branch banking statutes posed an impediment to holding company entry.

3. The Hearing Officer suggested that, for purposes of the applicable transportation statutes, carriage of cash letters involved interstate commerce in all instances, but it appears that such carriage may often involve only intrastate commerce.



DISCUSSION. The Board has considered the relevant aspects of the courier proposal, including the arguments of the parties, the Recommended Decision and the exceptions and comments thereto. With respect to the allegations of unfair competition, the Board has concluded that adherence to the following principles would eliminate or reduce to an insignificant degree any possibility of unfair competitive practices *vis a vis* other courier firms, while at the same time permitting the possibility of holding company entry adding to the competitive pressures within the courier industry. Such pressures may also result in greater convenience for purchasers of courier services and are likely, in certain instances, to result in increased efficiencies in the processing of cash letters. The principles also assure the ability of a purchaser of courier services from a holding company affiliate to ascertain precisely the costs of such services. The principles are:

a. A holding company courier subsidiary established under § 4(c)(8) should be a separate, independent corporate entity, not merely a servicing arm of a bank.

b. As such, the subsidiary should exist as a separate, profit oriented operation and should not be subsidized by the holding company system.

c. Services performed should be explicitly priced and should not be paid for on the basis of correspondent bank balances or other demand deposits maintained at affiliated banks.

Accordingly, entry of holding companies into courier activities on the basis of § 4(c)(8) will be conditioned as follows:

1. The courier subsidiary shall perform services on an explicit fee basis and shall be structured as an individual profit center designed to be operated on a profitable basis. The Board may regard operating losses sustained over an extended period as being inconsistent with continued authority to engage in courier activities.

2. Courier services performed on behalf of an affiliate's customer (such as carriage of incoming cash letters) shall be paid for by the customer. Such payments shall not be made indirectly, for example on the basis of imputed earnings of deposits maintained at or loan arrangements with subsidiaries of the holding company.

The Hearing Officer's proposed condition requiring the provision of comparable courier services to competing banks was designed to assure that courier services would not be used as a competitive tool in gaining correspondent bank deposits. The Board will extend this condition to apply to any data processing firm engaged in providing financially-related data processing which firm competes with a banking or data processing subsidiary of an applicant. Thus, the Board intends to impose the following third condition upon holding company entry:

3. The courier subsidiary shall, when requested by any bank or any data processing firm providing financially-related data processing services which firm competes with a banking or data processing subsidiary of Applicant, furnish comparable services at comparable rates, unless compliance with such request would be beyond the courier subsidiary's practical capacity. In this regard, the courier subsidiary should make known to the public its minimum rate schedule for services and its general pricing policies thereto. The courier subsidiary is also expected to maintain for a reasonable period of time each request denied with the reasons for such denial.

The Board has considered other possible adverse effects of permitting holding company entry, such as undue concentration of resources, conflicts of interest, or unsound banking practices and has concluded that the possibility of these adverse effects generally being significant is remote. The question of whether holding company entry would violate State bank branching laws and constitute an unsound banking practice or unfair competition is separately discussed below as are issues pertaining to Regulation Q.

*State Branching Laws.* The Board has concluded that the operation of a courier service under the conditions set forth above would not constitute branch banking. The courier subsidiary would be a separate corporation, rather than an additional place of business of the bank. The Board sees no reason to attribute the activities of a courier subsidiary operated in accordance with the Board's conditions to an affiliated bank or banks. Accordingly, the Board does not regard State branching laws as an impediment to the amendment of Regulation Y to permit holding companies to engage in courier services. Furthermore, the Board has considerable doubt that the branch banking laws are applicable to interbank transactions involving cash letters, which have long been regarded in terms of correspondent banking rather than branch banking. The Board does not regard either *First National Bank v. Dickinson*, 396 U.S. 122 (1969), or *Jackson v. First National Bank of Cornelia*, 292 F. Supp. 156 (1968); *affm'd*, 430 F. 2d 1200 (5th Cir., 1970); *cert. den.* 401 U.S. 947 (1971), as controlling with regard to permitting holding companies to engage in courier services.

*Regulation Q.* Another issue, raised in these proceedings, is whether the payment by a bank to a courier firm of the charges for transporting incoming cash letters of correspondent banks constitutes the payment of interest to the correspondent banks on demand deposits held at the bank.<sup>4</sup> Since the payment of interest issue is present regardless of whether or not the courier firm is a holding company affiliate, the

4. Section 19 of the Federal Reserve Act prohibits member banks from paying interest on demand deposits (12 U.S.C. 371(a)), but authorizes the Board to determine what shall be deemed a payment of interest (12 U.S.C. 461). In Regulation Q, the Board has stated that any payment to or for the account of any depositor, as compensation for the use of funds constituting a deposit, shall be considered interest (12 CFR 217.2(b)).



interest issue is only collaterally related to the proposed determination that courier services are closely related to banking. Nevertheless, as the interest issue has been raised in the context of this proceeding, the Board's views concerning the issue are presented below.

Any determination concerning whether or not a prohibited payment of interest has been made must be based on the specific factual circumstances involved. Two specific factual situations are presented in the record of this proceeding. In one situation, a bank (Bank A) gives its correspondent banks the option of the correspondent bank making direct payments for courier services to the firm rendering such services, or to having payments made by Bank A to the courier firm on the basis of traditional account analysis. Such payments, when made by Bank A, are paid to a separate courier corporation and are more than nominal in amount. While such payments are not made directly to the deposit account of the correspondent bank, the payments are identifiably made on behalf of the correspondent bank on the basis of deposits maintained at Bank A. Based on these facts and other facts of record, the Board has concluded that such payments by Bank A to the courier on the basis of traditional account analysis may be viewed as an indirect payment of interest to the account of a depositor as compensation for the use of funds. A second factual situation presented involves a bank paying the courier expense for incoming cash letters of other banks and treating the payments as part of its overhead expenses. Payments for courier services are in some cases made for banks not maintaining correspondent balances. In this factual situation, the Board has concluded that no payment of interest is involved.

*De Novo Procedures.* Because of the limited number of firms providing courier services in many markets, the Board itself desires to fully consider the public benefits aspects of each application to engage in courier services. Accordingly, the Board has deter-

mined that the *de novo* procedures of § 225.4(b)(1) should not be utilized by an applicant's seeking to engage in courier services and that an application must be filed under the provisions of § 225.4(b)(2) of Regulation Y.

*Conclusion.* The Board has considered whether or not performance by a holding company affiliate can reasonably be expected to produce public benefits, such as greater convenience, increased competition, or gains in efficiency that outweigh potential adverse effects such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices. For the reasons stated above, the Board has concluded that the balance of public interest factors it is required to weigh is likely to be favorable in a sufficient number of instances to justify adding certain courier services to the list of activities the Board has determined to be closely related to banking. Accordingly, the Board has concluded that certain courier services as enumerated in § 225.4(a)(11) are so closely related to banking or managing or controlling banks as to be a proper incident thereto.

### III. Armored Car Services.

The Board has examined the record of the proposed amendment to Regulation Y with respect to adding armored car services to the list of activities the Board has found to be closely related to banking and has found the evidence of record to be inconclusive. The Board notes that the record is virtually devoid of evidence in support of the proposed amendment. Therefore, if at some future time a holding company applies pursuant to § 4(e)(8) to engage in armored car services, such holding company shall, in meeting its burden of demonstrating that its proposed activities are so closely related to banking as to be a proper incident thereto, specifically address the evidence of record submitted in this proceeding. Such evidence will be available at the Board and at each of the Federal Reserve Banks.



# Board of Governors of the Federal Reserve System

## BANK HOLDING COMPANIES

### AMENDMENT TO REGULATION Y

Effective November 15, 1973, section 225.4(a) is amended by adding a new subparagraph (11) thereto, 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:

\* \* \*

(11) providing courier services (i) for the internal operations of the holding company and its subsidiaries; (ii) for checks, commercial papers, documents, and written instruments (excluding currency or bearer-type negotiable instruments) as are exchanged among banks and banking institutions; (iii) for audit and accounting media of a banking or financial nature and other business records and documents used in processing such media.<sup>3a</sup>

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3a. Applications to engage *de novo* in providing courier services should be filed in accordance with the procedures of § 225.4(b)(2) rather than § 225.4(b)(1). See also the Board's interpretation on courier activities (12 CFR 225.129), which sets forth conditions for holding company entry pursuant to § 4(c)(8).