

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7352]
[March 1, 1974]

MANAGEMENT CONSULTING SERVICES BY BANK HOLDING COMPANIES

Texts of Amendment to, and Interpretation of, Regulation Y

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

Our Circular No. 7349, dated February 26, 1974, contained the text of a statement, issued by the Board of Governors of the Federal Reserve System, announcing an amendment to, and a related interpretation of, its Regulation Y, "Bank Holding Companies," that permits bank holding companies, under specified conditions, to provide certain kinds of management consulting advice to nonaffiliated banks.

Enclosed are copies of the amendment, effective February 26, 1974, and the related interpretation. Additional copies will be furnished upon request.

ALFRED HAYES,
President.

Board of Governors of the Federal Reserve System

BANK HOLDING COMPANIES

AMENDMENT TO REGULATION Y

Effective February 26, 1974, section 225.4(a) is amended by adding a new subparagraph (12) 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:

* * *

(12) providing management consulting advice* to nonaffiliated banks *Provided* that, (i) neither the bank holding company nor any of its subsidiaries own or control, directly or indirectly, 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 advice is rendered 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 existing client banks located in the same market area(s) as the client bank.**

* In performing this activity bank holding companies are not authorized to perform tasks or operations or provide services to client banks either on a daily or continuing basis, except as shall be necessary to instruct the client bank on how to perform such services for itself. See also the Board's interpretation of bank management consulting advice (12 CFR 225.130).

** Applications to engage *de novo* in providing management consulting advice to nonaffiliated banks should be filed in accordance with the procedures of § 225.4(b)(2) rather than § 225.4(b)(1) of Regulation Y.

Board of Governors of the Federal Reserve System

BANK HOLDING COMPANIES

INTERPRETATION OF REGULATION Y

§225.130 — Activities closely related to banking.

Bank management consulting advice. The Board's amendment of § 225.4(a), which adds bank management consulting advice to the list of closely related activities, describes in general terms the nature of such activity. This interpretation is intended to explain in greater detail certain of the terms in the amendment.

It is expected that bank management consulting advice would include, but not be limited to, advice concerning: bank operations, systems and procedures; computer operations and mechanization; implementation of electronic funds transfer systems; site planning and evaluation; bank mergers and the establishment of new branches; operation and management of a trust department; international banking; foreign exchange transactions; purchasing policies and practices; cost analysis, capital adequacy and planning; auditing; accounting procedures; tax planning; investment advice (as authorized in § 225.4(a)(5)); credit policies and administration, including credit documentation, evaluation, and debt collection; product development, including specialized lending provisions; marketing operations, including research, market development and advertising programs; personnel operations, including recruiting, training, evaluation and compensation; and security measures and procedures.

In permitting bank holding companies to provide management consulting advice to non-affiliated "banks", the Board intends such advice to be given only to an institution that both accepts deposits that the depositor has a legal right to withdraw on demand and engages in the business of making commercial loans. It is also intended that such management consulting advice may be provided to the "operations subsidiaries" of a bank, since such subsidiaries perform functions that a bank is empowered to perform directly at locations at which the bank is authorized to engage in business (12 CFR 250.141).

Although a bank holding company providing management consulting advice is prohibited by the regulation from owning or controlling, directly or indirectly, any equity securities in a client bank, this limitation does not apply to shares of a client bank acquired, directly or indirectly, as a result of a default on a debt previously contracted. This limitation is also inapplicable to shares of a client bank acquired by a bank holding company, directly or indirectly, in a fiduciary capacity, *provided* that the bank holding company or its subsidiary does not have sole discretionary authority to vote such shares or shares held with sole voting rights constitute not more than five per cent of the outstanding voting shares of a client bank.