

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7935]
August 13, 1976

PROPOSED AMENDMENT TO REGULATION Y

Providing Management Consulting Advice

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

Following is the text of a statement issued August 2 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System announced today that it would consider possible adoption of providing management consulting advice to certain types of nonaffiliated financial institutions as an activity permissible for bank holding companies.

The Board will receive comment on the proposed amendment to its Regulation Y (regulation of bank holding companies) and on a related application, through September 8, 1976.

The Board specified the following depository-type financial institutions as included in its proposal: mutual or stock savings banks and savings and loan or building and loan associations, credit unions, industrial banks, Morris Plan banks, cooperative banks, industrial loan companies and similar institutions.

Management consulting advice for nonaffiliated commercial banks is already an activity permissible for bank holding companies, under certain conditions and restraints.

The Board invited comment on the following questions:

1. Whether providing management consulting advice to the indicated kinds of institutions, not affiliated with the bank holding company providing the advice, is an activity closely enough related to banking or bank management to justify its addition to the list of businesses permissible for bank holding companies.
2. Whether a proposal by Worcester Bancorp, Inc., of Worcester, Mass., to provide management consulting advice to nonaffiliated savings banks could be expected to produce public benefits outweighing any adverse effects. Worcester proposes to provide management advice to savings banks not affiliated with it under the same conditions imposed by the Board on giving such advice to commercial banks.

Any requests for a hearing on these questions should be accompanied by a statement summarizing the evidence expected to be presented or elicited at the hearing, and a statement as to why the question should not be resolved without a hearing.

Printed below is the text of the Board of Governors' proposal. Comments thereon should be submitted by September 8, and may be sent to our Domestic Banking Applications Department.

PAUL A. VOLCKER,
President.

[Reg. Y]
BANK HOLDING COMPANIES
[Docket No. R-0051]

Notice of Proposed Rulemaking
Relating to Providing Management Consulting Advice

The Board of Governors has received an application filed by Worcester Bancorp, Inc., Worcester, Massachusetts, pursuant to section 4(c)(8) of the Bank Holding Company Act (12 U.S.C. 1843(c)(8)) and §225.4 of the Board's Regulation Y (12 CFR 225.4(b)(2)), for prior approval to engage *de novo* in providing management consulting advice to nonaffiliated savings banks. Providing such services to nonaffiliated com-

mercial banks has previously been determined by the Board of Governors to be closely related to banking. (See 12 CFR §225.4(a)(12).)

Applicant proposes to provide management consulting services to nonaffiliated savings banks under the same conditions and with the same restrictions that are applicable under §225.4(a)(12) of Regulation Y (12 CFR

(OVER)

§225.4(a)(12)), which permits bank holding companies to provide management consulting advice to non-affiliated 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] except where such interlocking relationships are or would be permitted by section 212.3(g) of Regulation L; (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 that 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].

Further, in providing management consulting advice to commercial banks, bank holding companies are not authorized to perform tasks or operations or provide services to clients either on a daily or continuing basis, except as is necessary to instruct the client on how to perform such services for itself.

Section 4(c)(8) of the Bank Holding Company Act provides that a bank holding company may, with Board approval, acquire "shares of any company the activities of which the Board after due notice and opportunity for hearing has determined (by order or regulation) to be so closely related to banking or managing or controlling banks as to be a proper incident thereto." The Applicant believes that the proposed activity is so closely related to banking as to be a proper incident thereto.

In connection with this application, the Board will consider amending Regulation Y (12 CFR 225.4(a)) to add the activity of providing management consulting advice to nonaffiliated savings banks to the list of activities that the Board has previously determined to be permissible for bank holding companies.

Concurrently with that question, the Board will also consider the separate question of amending Regulation

Y (12 CFR §225.4(a)) to add the activity of providing management consulting advice to nonaffiliated, depository-type, financial institutions to the list of those permissible activities specified in §225.4(a) of Regulation Y. Such institutions would include: savings banks (mutual or stock), savings and loan or building and loan associations (mutual or stock), credit unions, industrial banks, Morris Plan banks, cooperative banks, industrial loan companies and similar institutions.

Interested persons may express their views on the questions of whether providing management consulting advice to (1) nonaffiliated savings banks; or (2) non-affiliated, depository-type, financial institutions is "so closely related to banking or managing or controlling banks as to be a proper incident thereto" within the meaning of section 4(c)(8).

Interested persons may also express their views on the question of whether consummation of the proposal by Worcester Bancorp can "reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices."

Any requests for a hearing on these questions should be accompanied by a statement summarizing the evidence the person requesting the hearing proposes to submit or to elicit at the hearing and a statement of the reasons why this matter should not be resolved without a hearing.

The application by Worcester Bancorp may be inspected at the offices of the Board of Governors or at the Federal Reserve Bank of Boston. Expressions of views received by the Board may be inspected at the offices of the Board of Governors.

Any views or requests for hearing should be submitted in writing and received by the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, not later than September 8, 1976.