

FEDERAL RESERVE BANK  
OF NEW YORK

Circular No. 8895  
August 11, 1980

REGULATION Y

Interpretation Regarding Operations Subsidiaries of Bank Holding Companies

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

The Board of Governors of the Federal Reserve System has issued an interpretation of its Regulation Y, "Bank Holding Companies and Change in Bank Control," providing that a bank holding company may establish, without prior approval by the Board of Governors, an operations subsidiary to perform services for the holding company and its subsidiaries that the holding company could perform directly.

Enclosed is a copy of the interpretation. Questions thereon may be directed to our Domestic Banking Applications Department (Tel. No. 212-791-5861).

ANTHONY M. SOLOMON,  
*President.*

FEDERAL RESERVE SYSTEM

12 CFR Part 225

[Regulation Y, Docket No. R-0322]

Bank Holding Companies; Operations Subsidiaries

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final Interpretation.

SUMMARY: This interpretation provides that a bank holding company may form a subsidiary to perform services for its subsidiaries that the bank holding company could perform directly through a division or department.

EFFECTIVE DATE: August 11, 1980.

FOR FURTHER INFORMATION CONTACT: Bronwen Mason, Senior Attorney (202/452-3564), or Jennifer J. Johnson, Senior Attorney (202/452-3584), Legal Division, Board of Governors of the Federal Reserve System, Washington, D. C. 20551.

SUPPLEMENTARY INFORMATION: 12 CFR Part 225 is amended by adding a new section 225.141 to read as follows:

225.141 Operations subsidiaries of a bank holding company.

In orders approving the retention by a bank holding company of a 4(c)(8) subsidiary, the Board has stated that it would permit, without any specific regulatory approval, the formation of a wholly-owned subsidiary of an approved 4(c)(8) company to engage in activities that such a company could itself engage in directly through a division or department. (Northwestern Financial Corporation, 65 Federal Reserve Bulletin 566 (1979).) Section 4(a)(2) of the Act provides generally that a bank holding company may engage directly in the business of managing and controlling banks and permissible nonbank activities, and in furnishing services directly to its subsidiaries. Even though section 4 of the Act generally prohibits the acquisition of shares of nonbanking organizations, the Board does not believe that such prohibition should apply to the formation by a holding company of a wholly-owned subsidiary to engage in activities that it could engage in directly. Accordingly, as a general matter, the Board will permit without any regulatory approval

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a bank holding company to form a wholly-owned subsidiary to perform servicing activities for subsidiaries that the holding company itself could perform directly or through a department or a division under section 4(a)(2) of the Act. The Board believes that permitting this type of subsidiary is not inconsistent with the nonbanking prohibitions of section 4 of the Act, and is consistent with the authority in section 4(c)(1)(C) of the Act, which permits a bank holding company, without regulatory approval, to form a subsidiary to perform services for its banking subsidiaries. The Board notes, however, that a servicing subsidiary established by a bank holding company in reliance on this interpretation will be an affiliate of the subsidiary bank of the holding company for the purposes of the lending restrictions of section 23A of the Federal Reserve Act. (12 U.S.C. 371c)

The Board has issued this interpretation pursuant to its statutory authority under sections 4(a)(2) and 5(b) of the Bank Holding Company Act, 12 U.S.C. §§ 1843(a)(2) and 1844(b).