

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 9581  
November 15, 1983 ]

MANAGEMENT OFFICIAL INTERLOCKS  
Amendments to Regulation L

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

In our Circular No. 9556, dated September 26, 1983, the Board of Governors of the Federal Reserve System announced the adoption of amendments to its Regulation L, "Management Official Interlocks," to implement the Depository Institution Management Interlocks Act. In adopting the final amendments, the following statement was issued by the Board of Governors:

The Federal Reserve Board has announced that the effective date of amendments to its Regulation L (Management Official Interlocks) approved in August will be November 30, 1983.

Although the Board approved its amendments earlier, the effective date could not be set until the other federal regulators of depository institutions had approved corresponding changes in their regulations. The five federal regulators (Office of the Comptroller of the Currency, Federal Reserve System, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board and National Credit Union Administration) have now published a joint set of amendments affecting management interlocks among depository organizations and establishing the effective date of the amendments. The joint rules do not alter the amendments to Regulation L approved by the Board in August.

The amendments implement the Depository Institutions Management Interlocks Act, which generally, but with certain exceptions, prohibits specified management official interlocks between depository institutions, depository holding companies and their affiliates. The amendments simplify procedures for obtaining exceptions and extensions of time under the Act, ease the burden of the Act on depository institution holding companies, broaden exclusions for certain management officials, broaden circumstances under which exemptions are available due to disruptive management loss, clarify circumstances requiring termination of grandfathered interlocks and provide rules for termination of interlocks between depository institutions and nondepository organizations that become diversified savings and loan holding companies (or their subsidiaries).

Printed on the reverse side is the summary portion of the notice published in the *Federal Register* on November 1, 1983. The complete text of that notice, including a summary of comments received in connection with the proposal to amend the regulation, a discussion of the specific provisions of the amendments, and a Regulatory Flexibility Act analysis, will be furnished upon request directed to the Circulars Division of this Bank (Tel. No. 212-791-5216).

Enclosed — for member banks and others who maintain sets of the Board's regulations — is the text of the amendments to Regulation L, which has been reprinted from the *Federal Register* of November 1. Questions regarding the regulation may be directed to our Regulations Division (Tel. No. 212-791-5914).

ANTHONY M. SOLOMON,  
President.

(OVER)

FEDERAL RESERVE BANK

AGENCIES: Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, and National Credit Union Administration.

ACTION: Final rule.

SUMMARY: The Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the National Credit Union Administration (collectively referred to as the "agencies") are amending their regulations implementing the Depository Institution Management Interlocks Act, which generally prohibit certain management official interlocks between depository institutions, depository holding companies, and their affiliates. These amendments will (1) simplify the procedure for obtaining exceptions to the Act's prohibitions and extensions of time to permit compliance with the Act, (2) ease the burden of the Act on depository institution holding companies by redefining the terms "office" and "total assets," (3) broaden the exclusion for management officials whose functions relate exclusively to retail merchandising and manufacturing, (4) broaden the circumstances under which the exception of the Act for disruptive management loss is available, (5) clarify the circumstances that require termination of nongrandfathered management official interlocks, and (6) provide that interlocks between depository organizations and nondepository organizations that become diversified savings and loan holding companies, or their subsidiaries, need not be terminated until November 10, 1988, despite the occurrence of changes in circumstances. These amendments will streamline procedures for administration of the Interlocks Act, and provide the management of depository institutions and depository organizations with greater flexibility.

EFFECTIVE DATE: November 30, 1983.

FOR FURTHER INFORMATION CONTACT: Bronwen Mason Chaiffetz ((202) 452-3564) or Melanie Fein ((202) 452-3594), Board of Governors of the Federal Reserve System; James F. E. Gillespie, Jr. ((202) 447-1893) or Rosemarie Oda ((202) 447-1880), Office of the Comptroller of the Currency; Pamela E. F. LeCren or Barbara I. Gersten ((202) 389-4171), Federal Deposit Insurance Corporation; David J. Bristol ((202) 377-6461) or Cheryl A. Martin ((202) 377-6410) Federal Home Loan Bank Board; or Steven R. Bisker ((202) 357-1030), National Credit Union Administration.

SUPPLEMENTARY INFORMATION: On October 26, 1982, the agencies published proposed amendments to the regulations (47 FR 47406) implementing The Depository Institution Management Interlocks Act of 1978 ("Interlocks Act") which was enacted as Title II of the Financial Institutions Regulatory and Interest Rate Control Act of 1978 (Pub. L. No. 95-630, 12 USC § 3201 *et seq.*) The proposed amendments would implement provisions of Pub. L. No. 97-110 which was signed into law on December 26, 1981, streamline procedures under existing regulations, and relieve certain regulatory burdens. The proposed changes were designed to ease the current regulatory burden while furthering the Interlocks Act's goal of fostering competition among depository organizations.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
MANAGEMENT OFFICIAL INTERLOCKS

AMENDMENTS TO REGULATION L

(effective November 30, 1983)

FEDERAL RESERVE SYSTEM

12 CFR Part 212

Management Official Interlocks

12 CFR Part 212 is amended as follows:

PART 212—[AMENDED]

1. The authority citation for Part 212 reads as follows:

Authority: 12 U.S.C. 3201 *et seq.*

2. Section 212.1(h), (i) and (l) are revised as follows:

§212.2 Definitions.

(h)(1) "Management official" means (i) an employee or officer with management functions (including a branch manager); (ii) a director (including an advisory director or honorary director); (iii) a trustee of a business organization under the control of trustees (e.g., a mutual savings bank); or (iv) any person who has a representative or nominee serving in any such capacity. (2) "Management official" does not include (i) a person whose management functions relate exclusively to the business of retail merchandising or manufacturing; (ii) a person whose management functions relate principally to the business outside the United States of a foreign commercial bank; or (iii) persons described in the provisos of section 202(4) of the Interlocks Act (12 U.S.C. 3201(4)).

(i) "Office" means a principal or branch office, located in the United States, of a depository institution. "Office" does not include a representative office of a foreign commercial bank, an electronic terminal, a loan production office, or any office of a depository holding company.

(l) "Total assets" means assets measured on a consolidated basis as of the close of the organization's last fiscal year. The "total assets" of a depository holding company include the total assets of all of its subsidiary affiliates, except that "total assets" of a diversified savings and loan holding company, as defined in section 408(a)(1)(F) of the National Housing Act (12 U.S.C. 1730a(a)(F)), or of a bank holding company that is exempt from the prohibitions of section 4 of the Bank Holding Company Act of 1956 pursuant to an order issued under section 4(d) of that Act (12 U.S.C. 1843(d)), means only the total assets of its depository institution affiliate. "Total assets" of a United States branch or agency of a foreign commercial bank means the total assets of such branch or agency itself exclusive of the assets of the other offices of the foreign commercial bank.

3. Section 212.3(a) and paragraph (b) introductory text, and paragraphs (b) (1) and (3) are revised to read as follows:

§ 212.3 General Prohibitions.

(a) *Community.* A management official of a depository organization may not serve at the same time as a management official of another depository organization not affiliated with it if:

(1) Both are depository institutions and each has an office in the same community;

(2) Offices of depository institution affiliates of both are located in the same community; or

(3) One is a depository institution that has an office in the same community as a depository institution affiliate of the other.

(b) *Standard Metropolitan Statistical Area ("SMSA").* A management official of a depository organization may not serve at the same time as a management official of another depository organization not affiliated with it if:

(1) Both are depository institutions, each has an office in the same SMSA,

and either institution has total assets of \$20 million or more;

(3) One is a depository institution that has an office in the same SMSA as a depository affiliate of the other and either the depository institution or the depository institution affiliate has total assets of \$20 million or more.

4. Section 212.4 is amended by revising paragraph (b) introductory text, paragraphs (b)(1), (2), (3), and (5), and paragraph (c) to read as follows:

§ 212.4 Permitted interlocking relationships.

(b) *Interlocking relationships permitted by agency order.* A management official or a prospective management official of a state member bank, bank holding company, or an affiliate of either, may enter into an otherwise prohibited interlocking relationship with a depository organization that falls within one of the classifications enumerated in this paragraph (b) if the Federal supervisory agency (as specified in section 207 of the Interlocks Act) of the organization that falls within one of the classifications determines that the relationship meets the requirements set forth in this paragraph. If the depository organization that falls within one of the classifications is not subject to the interlocks regulations of any of the Federal supervisory agencies, then the Board shall determine whether the relationship meets the requirements of this paragraph.

(1) *Organization in low income area; minority or women's organization.* A person may serve at the same time as a management official of two or more depository organizations (or affiliates thereof) if one of the depository organizations is (i) located, or to be located, in a low income or other economically depressed area, or (ii) controlled or managed by persons who are members of minority groups or by women, subject to the following

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For this Regulation to be complete, retain:

- 1) Regulation L, as amended effective May 9, 1980, printed in the pamphlet "Management Official Interlocks."
- 2) Amendments effective October 26, 1982 and February 7, 1983.
- 3) This slip sheet.

conditions: (A) The relationship is necessary to provide management or operating expertise to the organization specified in paragraph (b)(1) (i) or (ii) of this section; (B) no interlocking relationship permitted by this paragraph shall continue for more than five years; and (C) other conditions in addition to, or in lieu of, the foregoing may be imposed by the appropriate Federal supervisory agency in any specific case.

(2) *Newly-chartered organization.* A person may serve at the same time as a management official of two or more depository organizations if one of the depository organizations (or an affiliate thereof) is a newly-chartered organization, subject to the following conditions: (i) The relationship is necessary to provide management or operating expertise to the newly-chartered organization; (ii) no interlocking relationship permitted by this paragraph shall continue for more than two years after the newly-chartered organization commences business; and (iii) other conditions in addition to, or in lieu of, the foregoing may be imposed by the appropriate Federal supervisory agency in any specific case.

(3) *Conditions endangering safety or soundness.* A person may serve at the same time as a management official of two or more depository organizations (or affiliates thereof) if one of the depository organizations faces conditions endangering the organization's safety or soundness, subject to the following conditions: (i) The relationship is necessary to provide management or operating expertise to such organization facing conditions endangering safety or soundness; and (ii) other conditions in addition to, or in lieu of, the foregoing may be imposed by the appropriate Federal supervisory agency in any specific case.

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(5) *Loss of management officials due to changes in circumstances.* If a depository organization is likely to lose 30 percent or more of its directors or of its total management officials due to a

change in circumstances described in § 212.6 of this Part, the affected management officials may continue to serve in excess of the time periods specified in § 212.6, provided that: (i) The depository organization's prospective loss of management officials or directors will be disruptive to the internal management of the depository organization; (ii) the depository organization demonstrates that, absent a grant of relief in accordance with this paragraph, 30 percent or more of either its directors or management officials are likely to sever their interlocking relationships with the depository organization; (iii) if the prospective losses of management officials resulted from more than one change in circumstances, such changes in circumstances must have occurred within a fifteen-month period; and (iv) the depository organization develops a plan for the orderly termination of service by each such management official over a period not longer than 30 months after the change in circumstances which caused the person's service to become prohibited (but if the loss of management officials is the result of more than one change in circumstances, the 30-month period is measured from the first change in circumstances). Other conditions in addition to, or in lieu of, the foregoing may be imposed by the appropriate Federal supervisory agency. In evaluating requests made pursuant to this paragraph, the appropriate Federal supervisory agency will presume that a director who also is a paid, full-time employee of the depository organization, absent unusual circumstances, will not resign from the position of director with that depository organization. This presumption may, however, be rebutted by a showing that such unusual circumstances exist.

(c) *Diversified savings and loan holding company.* Notwithstanding § 212.3, a person who serves as a management official of a depository organization and of a nondepository organization (or any subsidiary thereof)

is not prohibited from continuing the interlocking service when the nondepository organization becomes a diversified savings and loan holding company as that term is defined in section 408(a)(1)(F) of the National Housing Act (12 U.S.C. 1730a(a)(1)(F)), and may continue to serve until November 10, 1988, despite the occurrence of any subsequent changes in circumstances, whether or not those changes in circumstances occurred prior to November 30, 1983.

5. Section 212.6 is revised to read as follows:

**§ 212.6 Changes in circumstances.**

(a) *Nongrandfathered interlocks.* If a person's service as a management official is not grandfathered under § 212.5 of this part, the person's service must be terminated if a change in circumstances causes such service to become prohibited. Such a change may include, but is not limited to, an increase in asset size of an organization due to natural growth, a change in SMSA or community boundaries or the designation of a new SMSA, an acquisition, merger or consolidation, the establishment of an office, or a disaffiliation.

(b) *Grace period.* If a person's nongrandfathered service as a management official becomes prohibited under paragraph (a) of this section, the person may continue to serve as a management official of all organizations involved in the prohibited interlocking relationship until 15 months after the date on which the change in circumstances that caused the interlock to become prohibited occurred, unless the appropriate Federal supervisory agency or agencies take affirmative action in an individual case to establish a shorter period.

By order of the Board of Governors of the Federal Reserve System, effective October 21, 1983.

William W. Wiles,  
Secretary of the Board.