

**FEDERAL RESERVE BANK  
OF NEW YORK**

[ Circular No. 10187 ]  
August 27, 1987 ]

**COMPETITIVE EQUALITY BANKING ACT OF 1987**

**Guidance on Reporting Requirements for Certain  
Companies Controlling Nonbank Banks**

*To All Depository Institutions, and Others  
Concerned, in the Second Federal Reserve District:*

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

The Federal Reserve Board has issued a statement of guidance for companies that control a nonbank bank and must report the bank's activities to the Board under the newly adopted Competitive Equality Banking Act of 1987.

The new law provides grandfather privileges to nonbanking companies that on March 5 controlled a nonbank bank and requires those companies to report to the Board on the bank's activities. The report must be filed within 60 days of the August 10 enactment date.

A number of companies qualifying under the grandfather provision have requested guidance as to where the report should be filed and what it should contain. The report should be filed with the district Reserve Bank where the nonbank bank is located, should indicate the date the company acquired the nonbank and should describe each of the nonbank bank's activities.

Printed on the following pages is the Board's statement. The reports described therein should be filed, by October 9, 1987, with our Banking Applications Department. Questions regarding these reporting requirements may also be directed to that Department (Tel. No. 212-720-5861).

E. GERALD CORRIGAN,  
*President.*



FEDERAL RESERVE SYSTEM

GUIDANCE ON REPORTING REQUIREMENTS UNDER  
THE COMPETITIVE EQUALITY BANKING ACT OF 1987  
FOR CERTAIN COMPANIES CONTROLLING NONBANK BANKS

The Competitive Equality Banking Act of 1987 ("CEBA"), enacted on August 10, 1987, requires a nonbanking company that controlled a nonbank bank on March 5, 1987, and that wishes to establish its qualification for certain grandfather privileges under CEBA, to provide the Board, within 60 days after the date of enactment of CEBA, with the name and address of the company, the name and address of each bank the company controls, and a description of the bank's activities. The purpose of this statement is to provide guidance regarding this reporting requirement.

The report required by CEBA should be filed with the Federal Reserve Bank for the district in which the nonbank bank is located. Companies filing the report should also provide the information necessary to enable the Board to determine the company's qualification under the grandfather provision in CEBA, including the date the company acquired control of the nonbank bank, whether the company controlled the bank on March 5, 1987, whether the company acquired control of any additional bank or insured thrift institution after March 5, 1987, and, if so, under what circumstances.

In the Board's view, the report required by CEBA should describe each discrete activity in which the subsidiary



bank was engaged on March 5, 1987, and is currently engaged, including the following:

- the types of deposits offered (e.g. demand deposits, NOW accounts, MMDAs, savings or time deposits or IRA or Keogh accounts);
- the categories of loans the bank offered as described in the Report of Condition filed by the bank, as well as the other types of activities specified on Schedule RC-L of the Report of Condition;
- the types of trust or other fiduciary services offered, including the provision of securities custodial services to customers;
- the types of clearing or payments services offered; and
- the types of other activities in which the bank was engaged (e.g. leasing or securities trading or brokerage).

The report should specifically identify individual services within the general categories of activities listed above. For example, the report on the types of clearing or payments services should list the specific services offered, such as clearing United States government, federal agency or other securities for customers, clearing bankers acceptances, commercial paper, corporate and municipal notes, bonds and coupons, processing coin and currency, sending or receiving funds transfers for customers, including over Fedwire or CHIPS or through automated clearinghouse transactions, clearing checks, credit and debit card drafts or receipts, participation in ATM, POS, or home banking networks, and providing settlement



services to depository institutions or corporations. It should also specify whether the services are provided to consumer or commercial customers. Similar specificity for each type of activity should be provided in the case of other categories. In addition, the report should describe the extent to which the subsidiary bank engaged in each activity as of March 5, 1987, in terms of the dollar volume and number of transactions or accounts. If no precise volume and transaction information is available, the appropriate order of magnitude of the activity should be provided.

The report should also specify whether the bank was engaging in any of the above activities together with or on behalf of an affiliate on March 5, 1987. It should describe any products or services of an affiliate that the bank offered or marketed on March 5, 1987, as well as any of the bank's products or services that were being offered or marketed by or through an affiliate on March 5, 1987, and the manner in which any such products or services were being offered or marketed on March 5, 1987.

The Board does not believe it necessary for the report to contain data on the level of assets maintained by the nonbank bank for purposes of the 7 percent asset growth limitation established by CEBA for grandfathered nonbank banks. In order to enable the Board to determine the base for this limitation and to monitor compliance with the limitation thereafter, the Board intends to rely on the average total



asset data as reported quarterly by the bank on Schedule RC-K of the Report of Condition.

Under CEBA, a grandfathered company is a company (other than a bank holding company) that on March 5, 1987, controlled an institution that became a bank under the Bank Holding Company Act as a result of CEBA's enactment (a so called "nonbank bank"). This provision allows the grandfathered company to retain control of the bank without becoming a bank holding company if the company and the subsidiary bank observe certain limitations. These limitations provide that the nonbanking company may not acquire control of an additional bank or FSLIC insured thrift institution after March 5, 1987, or acquire more than 5 percent of the shares or assets of such an institution except in certain limited situations. In addition, the subsidiary nonbank bank may not engage in any activity other than those in which it was lawfully engaged on March 5, 1987, participate in certain joint marketing programs with an affiliate unless it was so engaged on March 5, 1987, permit any overdraft (including an intra-day overdraft), or incur any such overdraft in the bank's account at a Federal Reserve Bank, on behalf of an affiliate, except in certain limited circumstances, or increase its assets by more than 7 percent during any 12 month period commencing one year after the date of enactment of CEBA.

CEBA provides that in the event the grandfathered company or its subsidiary nonbank bank fails to observe any of



the limitations set out in the grandfather provision the company loses its exemption under the grandfather provision and thereby becomes a bank holding company. In that event, the statute provides the company 180 days to divest control of the bank.

As indicated, the Board is issuing this statement solely for the purpose of providing guidance to companies required to report to the Board under CEBA regarding the activities of their nonbank bank subsidiaries. No determination has been made with respect to the scope of the term "activity" in the grandfather limitations of CEBA (section 4(f)(3)(B) of the Bank Holding Company Act). The information on activities submitted pursuant to the reporting requirement of CEBA will assist the Board in making and applying this determination.

This collection of information has been approved under the provisions of the Paperwork Reduction Act.

Board of Governors of the Federal Reserve System,  
August 21, 1987.



William W. Wiles  
Secretary of the Board

F.R. 3040  
OMB No. 7100-0225