

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 6744]
June 16, 1971]

DATA PROCESSING ACTIVITIES OF BANK HOLDING COMPANIES
Amendment to Regulation Y, Effective July 1, 1971

To All Banks, and Others Concerned,
in the Second Federal Reserve District:

The following statement was made public yesterday by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System announced today an additional amendment to its bank holding company regulation outlining the type of data processing activities permissible for bank holding companies under the 1970 amendments to the Bank Holding Company Act.

The amendment, effective July 1, adds an eighth activity to the list announced by the Board last month. On May 27, the Board listed seven activities that it found to be closely related to banking, or managing or controlling banks, and thus permissible for bank holding companies subject to Board approval in individual cases.

Under the amendment announced today, the following activity is added to that list:

“(1) providing bookkeeping or data processing services for the internal operations of the holding company and its subsidiaries and (2) storing and processing other banking, financial, or related economic data, such as performing payroll, accounts receivable or payable, or billing services.”

Data processing was among the 10 activities proposed by the Board on January 25 when it announced plans to amend its Bank Holding Company Regulation Y as a first step toward implementing the 1970 amendments to the Act. A hearing was held before members of the Board on the data processing proposal on April 16.

After considering the hearing record and the written comments received since January, the Board shifted its approach to this activity, in part, from the types of customers for whom data processing services are performed to the kinds of data being processed. Under the amendment, bank holding companies will be permitted—subject to Board approval in individual cases—to process banking, financial, or related economic data for any type of customer.

The original proposal would have permitted a bank holding company to acquire a subsidiary to provide “bookkeeping or data processing services for (1) the holding company and its subsidiaries, (2) other financial institutions, or (3) others, Provided, that the value of services performed by the company for such persons was not a principal portion of the total value of all such services performed.”

Two other proposed activities listed by the Board last January—both relating to insurance activities—are still under consideration.

A copy of the amendment is enclosed. To clarify its views on the amendment, the Board added a new paragraph (g) to its recent interpretation (12 CFR 222.123) on activities closely related to banking (the text of which was printed in our Circular No. 6739, dated May 28, 1971); the text of the added paragraph is printed on the reverse side of this circular.

Additional copies of this circular and its enclosure will be furnished upon request.

ALFRED HAYES,
President.

(OVER)

[Reg. Y]

BANK HOLDING COMPANIES

Nonbanking Activities of Bank Holding Companies

§ 222.123 Activities closely related to banking.

* * *

(g) *Data processing.* The authority of holding companies under § 222.4(a) to engage in data processing activities is intended to permit holding companies to process, by means of a computer or otherwise, data for others of the kinds banks have processed, by one means or another, in conducting their internal operations and accommodating their customers. It is not intended to permit holding companies to engage in automated data processing activities by developing programs either upon their own initiative or upon request, unless the data involved are financially oriented. The Board regards as

incidental activities necessary to carry on the permissible activities in this area the following: (i) making excess computer time available to anyone so long as the only involvement by the holding company system is furnishing the facility and necessary operating personnel; (ii) selling a byproduct of the development of a program for a permissible data processing activity; and (iii) furnishing any data processing service upon request of a customer if such data processing service is not otherwise reasonably available in the relevant market area.

BANK HOLDING COMPANIES

AMENDMENT TO REGULATION Y

Effective July 1, 1971, section 222.4 (a) is amended by changing the period at the end thereof to a semicolon and by adding a new subparagraph (8) thereto, as follows:

SECTION 222.4 — 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:

* * *

(8) (i) providing bookkeeping or data processing services for the internal operations of the holding company and its subsidiaries and (ii) storing and processing other banking, financial, or related economic data, such as performing payroll, accounts receivable or payable, or billing services.