

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

## Office Correspondence

Date March 17, 1938Chairman Eccles and Governors Davis,  
To McKee, SzymczakSubject: Provisions of law on supervisionFrom Mr. Wingfield, Assistant General Counsel of bank holding companies,

There is attached for your information a copy of a memorandum on "Provisions of Law on Supervision of Bank Holding Companies".

In discussions of possible holding company legislation, Mr. Upham, of the Treasury Department, seemed to be somewhat confused as to the respective duties of the Board and the Comptroller of the Currency in connection with bank holding companies. Accordingly, at Governor Ransom's suggestion, I prepared the attached memorandum and reached an agreement with Mr. Kelly, of the office of the Comptroller of the Currency, as to its accuracy. Mr. Kelly and I handed a copy of it to Mr. Upham and discussed the matter with him.

Respectfully,



B. Magruder Wingfield,  
Assistant General Counsel.

Attachment.

PROVISIONS OF LAW ON SUPERVISION OF BANK HOLDING COMPANIES

Under existing law, a bank holding company affiliate shall not vote stock controlled in a subsidiary member bank (national bank or State member bank) unless it has a voting permit obtained from the Reserve Board. The Reserve Board may grant or withhold such permit as the public interest may require. In acting upon an application for a voting permit, the Board is required by law to "consider the financial condition of the applicant, the general character of its management, and the probable effect of the granting of such permit" upon the affairs of the member bank. Also, no permit shall be granted except upon certain conditions set out in the statute relating to agreements required of each holding company affiliate with reference to examination, acquisition of assets other than bank stocks, relationships with securities companies, etc. If a holding company affiliate violates provisions of law or any agreement made pursuant to the provisions relating to the issuance of voting permits, the Reserve Board may revoke its voting permit. When so revoked, subsidiary national banks may not receive deposits of public moneys of the United States nor pay any further dividend to the holding company affiliate, and in the discretion of the Reserve Board the charter of any subsidiary national bank and membership in the Federal Reserve System of any State member bank may be forfeited. (Section 5144 of the Revised Statutes of the United States and section 9 of the Federal Reserve Act.)

In making application for a voting permit, a holding company affiliate is required by the law to agree that examiners authorized to examine subsidiary member banks may make examinations of the holding company affiliate and each subsidiary bank. Under this provision, a holding company affiliate which has applied for a voting permit and controls a national bank could be examined by examiners of the Comptroller of the Currency, the Reserve Board, or the Reserve bank of the appropriate district. Such a holding company affiliate controlling a State member bank could be examined by examiners of the Reserve Board or of the Federal Reserve bank of the appropriate district. (Section 5144 of the Revised Statutes of the United States and sections 9, 11, and 21 of the Federal Reserve Act.)

The Reserve Board is authorized to require reports of condition of "affiliates", including holding company affiliates, of State member banks, and the Comptroller of the Currency is authorized to require reports of condition of "affiliates", including holding company affiliates, of national banks. (Section 9 of the Federal Reserve Act and section 5211 of the Revised Statutes of the United States.)

The Comptroller and the Reserve Board are specifically authorized by law to examine "affiliates" of national banks and of State member banks, respectively. The definitions of a "holding company affiliate" and an "affiliate" are different, but if in any case a holding company affiliate should happen to be an affiliate also, the provisions of law referred to in this paragraph would apply. (Sections 9 and 21 of the Federal Reserve Act.)

It will be noted that under the technical provisions of law described above, there could be some duplication of examination of national banks, their holding company affiliates with voting permits and their affiliates by the Comptroller of the Currency on one hand and the Reserve Board and the Reserve banks on the other. However, as a matter of cooperation, it is and has been the practice that the Comptroller of the Currency examines national banks, their holding company affiliates with voting permits and their affiliates, and makes available to the Reserve Board and the Reserve banks copies of such examinations where necessary.

March 14, 1938

## FEDERAL RESERVE SYSTEM

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OFFICE CORRESPONDENCE

March 17, 1938.

To        Files  
From    Mr. Morrill

At 3:40 p.m. there was an informal meeting in the Conference Room attended by Messrs. Ransom, Szymczak and Davis, members of the Board, and Messrs. Morrill, Clayton, Thurston, Goldenweiser and Piser of the Board's staff.

Mr. Ransom called Mr. Burgess, Manager of the System Open Market Account, on the telephone and discussed with him the situation in the Government securities market. Mr. Burgess said that the New York bank had done a little buying, that it had cleaned up, or tried to clean up, any offerings of bonds that appeared to be hanging over the market, and that all that could be found was approximately \$3,000,000 of bonds which had been purchased. Following these purchases, Mr. Burgess said, the market drifted up slightly, the closing prices being slightly higher than at 1:30 p.m. Mr. Burgess stated that the closing prices were unchanged or were off from 1/32 to 4/32 for the day in the over-the-counter market which he thought was very satisfactory. He said that would indicate that the market had largely taken care of itself and had behaved pretty well.

Mr. Burgess added that he did not know how much of the \$3,000,000 of securities which had been purchased would be taken by the Treasury as that had not been decided, that he had talked with the Secretary of the Treasury shortly after the opening when the Secretary had agreed with the general procedure that had been followed yesterday, that he talked again with the Secretary about 2:30 p.m. today, and that the Secretary had said that he was quite satisfied.

As a result of the discussion over the telephone, and with the concurrence of Messrs. Szymczak and Davis, Mr. Ransom suggested to Mr. Burgess that he advise the Treasury that the System would be glad to have the Treasury take all of the bonds purchased or to take half or all of them itself whichever the Treasury might prefer. Mr. Burgess agreed to proceed in accordance with Mr. Ransom's suggestion.

Mr. Burgess also said that the British bond market was decidedly better than yesterday but was not particularly strong.

Mr. Piser left the room at this point and Messrs. Wingfield and Cagle of the Board's staff joined the group. There followed a discussion of developments with respect to the conferences that had been taking place in relation to the proposed bank holding company legislation.

Mr. Ransom stated that there had been a meeting at the Treasury today of the Interdepartmental Committee at which Mr. Jones, Chairman of the Reconstruction Finance Corporation, presented a letter dated March 17, 1938, addressed by him to the Secretary of the Treasury in regard to the discussions that had taken place in previous meetings of the committee, together with a draft of a suggested statement for the President to include in his message to Congress with respect to holding company legislation. Mr. Ransom said that he understood that the Secretary intended to transmit to the President today, with a short covering letter, both the letter from Mr. Jones and the suggested statement. Copies of Mr. Jones' letter and the suggested statement are attached to this memorandum.

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