

6/8/38

OUTLINE OF BANK HOLDING COMPANY AND
BANK AFFILIATE BILL (L-592)

1. Covers the entire field of regulation of bank holding companies and affiliates of insured banks, repealing present provisions covering the regulation of holding company affiliates and affiliates of member banks (including the provisions relating to voting permits).

2. Defines "bank holding company" as an organization having at least two subsidiary banks, one of which is an insured bank. Provides that an organization shall be a "subsidiary" of another if 20 per cent or more of its voting shares are owned, directly or indirectly, by the latter, or if the Board determines that it is subject to a controlling influence by the latter. Defines "affiliate" of a bank as an organization (1) which is a subsidiary of the bank, (2) of which the bank is a subsidiary, or (3) which is a related organization by reason of common ownership of shares or interlocking directorates.

3. Prohibits any new bank holding company.

4. Prohibits future acquisition of any bank stocks, directly or indirectly, by a bank holding company; except acquisition of additional stock in banks which were subsidiaries on January 1, 1938, where, in judgment of Reserve Board, it would be in public interest and Reserve Board grants its permission for such acquisition.

5. Prohibits any bank from establishing any new branch while it is a subsidiary of a bank holding company.

6. Requires all subsidiary banks of bank holding companies to become members of the Federal Reserve System. Authorizes Reserve Board to waive requirements of law for membership where necessary.

7. Continues authority in Reserve Board to make such examinations of each bank holding company, its subsidiary banks and subsidiary companies, and to require submission of such information and reports by such institutions as it deems necessary.

8. With certain modifications, continues requirements concerning the establishment of reserves of readily marketable assets by bank holding companies.

9. Requires bank holding companies to cause their subsidiary banks to pursue sound practices and maintain a sound financial condition and to cause such banks to have adequate capital and surplus funds.

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10. Provides penalties for violation, by a bank holding company or a subsidiary, of the law or the Board's regulations or orders, such as limitations on payment of dividends or fees to a bank holding company or a subsidiary thereof by subsidiary banks, on payment of dividends by a bank holding company, and on voting of stock in subsidiary banks by a bank holding company, and removal of officers or directors of a bank holding company.

11. Prohibits any insured bank (1) from making any loan or extension of credit to any of its affiliates, or (2) from making any advance to any person on security consisting of stock or other securities of any of its affiliates, or (3) from investing any of its funds in stock or other securities of any of its affiliates. (Some specific exceptions such as are now contained in section 23A of the Federal Reserve Act which relates to such relationships between member banks and affiliates.)

12. Prohibits insured banks from having "securities company" affiliates after one year, with enforcement by Board in the case of member banks (as at present under comparable prohibition in Banking Act of 1933) and by the Federal Deposit Insurance Corporation in case of nonmember insured banks.

13. Continues authority of Board and Comptroller to require member banks to furnish reports of their affiliates. Gives Federal Deposit Insurance Corporation like authority in the case of nonmember insured banks.

14. Continues authority of Board and Comptroller to examine affiliates of member banks. Gives Federal Deposit Insurance Corporation like authority with respect to affiliates of nonmember insured banks.

June 8, 1938.