

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date January 20, 1940To Chairman EcclesSubject: Supervisory authority of the Re-From Mr. Wingfield, Assistant General Counsel serve Board over bank holding companies.

Pursuant to the request received through Mr. Morrill, there is attached a brief outline of the supervisory authority over bank holding companies which has been vested in the Reserve Board by Congress.

In the "affiliate" provisions of the statute as distinguished from the strictly "holding company affiliate" provisions, there is an authorization for the Board to obtain condition reports of holding company affiliates of State member banks and for the Comptroller of the Currency to obtain condition reports from holding company affiliates of national banks. Since these authorizations are not contained in the strictly holding company provisions of the statute, reference to them has not been included in the attached memorandum. As you know, it is the Board's practice under the voting permit agreements to obtain annual reports of condition from all holding companies which hold general voting permits.

Respectfully,


Attachment

AUTHORITY OF RESERVE BOARD TO SUPERVISE BANK HOLDING COMPANIES

In the Banking Act of 1933 Congress placed the responsibility on the Reserve Board to regulate and supervise holding companies of member banks of the Federal Reserve System. In general, such a company is defined as one which controls a majority of the voting stock of a member bank or controls the election of a majority of its directors.

As a mechanism for effecting supervision of bank holding companies, Congress prohibited a bank holding company from voting stock controlled in a subsidiary member bank unless it has a voting permit obtained from the Reserve Board. The Reserve Board is authorized to grant or withhold such permit as the public interest may require.

In acting upon an application for such a permit, the Reserve 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. No permit may be granted except upon certain conditions set out in the statute relating to agreements required of each holding company affiliate. Among other things, the holding company must agree that examiners of the Reserve Board or of the Reserve Bank of the appropriate district may make examinations of the holding company and each of its subsidiary banks, and where a national bank is a subsidiary, that the examiners of the Comptroller of the Currency may examine the holding company and each subsidiary bank. The Reserve Board has authority, and it is its practice, in granting voting permits to require the holding company to execute agreements relating to the maintenance of sound financial condition by the holding company and its subsidiary banks and the conduct of the business of the holding company and its subsidiaries in accordance with sound policies.

If a holding company violates provisions of law or any agreement made pursuant thereto, the Reserve Board may revoke its voting permit. When so revoked, subsidiary national banks may not receive deposits of public monies of the United States or pay any further dividend to the holding company, and, in the discretion of the Reserve Board, the charter of any subsidiary national bank and membership in the Reserve System of any State member bank may be forfeited.

In the Act of August 23, 1935, Congress recognized the supervisory authority of the Reserve Board over holding companies of member banks when it authorized the Reserve Board to exempt from the requirements of the law, relating to the obtaining of a voting permit, a holding company "which is determined by the Board of Governors of the Federal Reserve System not to be engaged" as a business in holding or controlling bank stocks.

The supervisory authority of the Reserve Board over holding companies of member banks was further recognized by Congress in the Act of June 22, 1936, when it granted certain tax credits to such companies upon the basis of a certificate from the Reserve Board as to the amount of earnings of the holding company devoted to the acquisition of readily marketable assets in compliance with requirements of the holding company statute.

Congress more recently recognized the supervisory authority of the Reserve Board over bank holding companies when it enacted the Investment Company Act of 1940 on August 22, 1940. When this bill was under consideration by Congress, it appeared that some bank holding companies would also be investment companies coming under the supervision of the SEC under the definitions contained in the bill. Upon a consideration of this problem of possible duplication of supervision and upon full presentation of the facts involved to the appropriate committees of Congress, Congress by a specific provision in the Investment Company Act of 1940 exempted from the provisions of that Act any holding company of a member bank which is "under the supervision of the Board of Governors of the Federal Reserve System" by reason of the fact that it holds a general voting permit issued to it by the Reserve Board prior to January 1, 1940. Provision is also made in the statute for a similar exemption of bank holding companies which subsequently obtain general voting permits from the Reserve Board and are determined by the Reserve Board to be primarily engaged in the business of holding bank stocks.

January 20, 1941.