

Honorable Tom C. Clark,
Attorney General,
Washington, D. C.

My dear Mr. Attorney General:

You may recall that, in our conference of Monday last respecting the Transamerica situation, I pointed out that the most desirable method of dealing with the bank holding company problem generally was through truly effective legislation. Only if Congress enacts a law on this subject with real "teeth" in it can we reasonably expect to prevent or control such potentially dangerous institutions as a banking monopoly combined with an investment trust empire -- already a proven possibility under existing laws.

In March of this year a bill dealing with this subject was introduced in Congress at the request of the Board. Since its introduction, however, it has been concluded that, as submitted, the bill is too all-inclusive, placing as it does a terrific and unnecessary administrative burden upon the Board. I have just had prepared a revised and streamlined version of this bill which I hope to have substituted for the one introduced in March. I would like very much in submitting this revised bill to know that it had the approval of your Department. I am, accordingly, enclosing herewith three copies of the bill as revised and would appreciate an early expression of the views of your office in the matter.

Sincerely yours,

M. S. Eccles,
Chairman.

Enclosures

10/15/45

Honorable Daniel W. Bell,
Under Secretary of the Treasury,
Washington, D. C.

Dear Dan:

With further reference to our talk respecting the possibility of submitting a revised bank holding company bill, I am sending you herewith a copy of one, which I have just had drafted, together with an explanatory statement. I am hopeful that you and your associates will find the time to study it in the very near future and to advise me if it would be acceptable to the Treasury Department.

I am sending a copy of this letter together with the bill to Messrs. Delano and Robertson.

Sincerely yours,

M. S. Eccles,
Chairman.

Enclosures

cc: Messrs. Delano and Robertson

JLT:fcc
10/15/45

Honorable Preston Delano,
Comptroller of the Currency,
Washington, D. C.

My dear Preston:

There is enclosed herewith a copy of a letter which I have today sent to Dan Bell together with a draft of a proposed substitute bank holding company bill. I am hopeful that I can have the benefit of your views on this bill at an early date.

Sincerely yours,

M. S. Eccles,
Chairman.

Enclosures

JLT:fcc
10/16/45

Statement Concerning Revised Legislation
Affecting Bank Holding Companies

On March 26, 1945, a bill to regulate and control bank holding companies, which had been prepared under the direction of the Board of Governors of the Federal Reserve System, was introduced in the Congress by Senator Wagner (S. 792) and Congressman Spence (H. R. 2776), chairmen of the Committees on Banking and Currency of the Senate and House, respectively. In introducing the proposed legislation both Senator Wagner and Congressman Spence explained to the Congress that the bill had been drafted in the light of the Board's experience in administering the totally ineffective provisions of the Banking Act of 1933 dealing with bank holding companies, and to supply the framework of legislation recommended by the Board in its Annual Report to Congress in 1943.

Since this bill was introduced, the Board received numerous expressions of opinion concerning the bill by representatives of banks and bank holding companies, as well as by Government officials engaged in other bank supervisory activities. After considering fully these many expressions of opinion, and particularly those which suggested certain revisions of the bill, the Board concluded that, to accomplish its fundamental objectives in respect of the holding company situation generally, it is not necessary for the proposed legislation to be as all-inclusive as it is in its present form, nor is it necessary to "freeze" existing bank holding companies at their present size or prevent the creation of new ones. Accordingly, the Board has prepared a revised and streamlined version of its original bill and it is offered as a substitute for S. 792 and H. R. 2776.

In its revised bill the Board has recommended that Congress treat bank holding companies in much the same manner as it has dealt with banks themselves. It recognizes that bank holding companies, if limited solely to managing, operating and controlling banks and placed under appropriate governmental supervision, including control over their creation and expansion, are and can be legitimate and efficient forms of banking enterprise.

The bill as revised, therefore, like that now before the Congress, requires all bank holding companies to register with the Board; to supply the Board with such relevant information as may be required from time to time in order to disclose fully their relations with their subsidiary banks; to divorce themselves from all nonbanking subsidiaries; to submit to examinations from time to time; and to obey such rules, regulations and orders as the Board may make as being necessary for the protection of investors or depositors. In addition, however,

the bill authorizes the Board to permit new bank holding companies to come into existence and to permit expansion of existing bank holding companies through acquisitions of stock or assets of banks if it finds that such a result would not be detrimental to the public interest.

As in S. 792 and H. R. 2776 the revised bill would prohibit "upstream" loans and intercompany sales of securities, except as they may be authorized under certain conditions by the Board. It would prohibit bank holding companies from exacting exorbitant or unreasonable managerial fees from the banks they control. Penalties are set up as well as means of enforcement; but there are also appropriate provisions for court review of all orders which the Board may be authorized to issue. Finally, the Board would be required to report back to the Congress before the expiration of five years the results of its administration of this Act.