

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date January 28, 1946

To Chairman Eccles

Subject: _____

From Mr. Townsend

The following is a summary of the salient provisions of our proposed bank holding company bill.

1. All bank holding companies are required to register with the Board and to supply current relevant financial and other information.

2. Each bank holding company and its subsidiaries are subject to examination by the Board.

3. It is made unlawful for a bank holding company, after two years, to own shares in nonbanking companies or to engage in nonbanking business. There are two exceptions to this prohibition. It does not apply (a) to shares owned by a bank holding company in companies which the Board determines are so closely related to the business of managing or controlling banks as to be proper incidents thereto, or (b) to shares acquired by a bank holding company at the request of a State or Federal authority.

4. No new bank holding companies can come into existence without approval of the Board.

5. No existing bank holding company may expand without approval of the Board.

[Note: It is anticipated that our bill will provide that if and when permission of the Board under Numbers 4 or 5 is sought, such permission will be granted only upon affirmative showing by the applicant that it is in the public interest that such permission be granted.]

6. No bank in a bank holding company system can buy the assets of another bank without the approval of the appropriate Federal authority.

7. Neither the bank holding company nor its subsidiaries may borrow from any of the banks in the system or sell any securities or other property to such banks. This does not apply to such loans as the Board may permit to meet the proper financial requirements of those companies in a bank holding company system which the Board has determined are reasonable and incidental to the business of managing and controlling banks.

8. The Board is authorized to determine the reasonableness of management or other service fees charged by a bank holding company or any of its subsidiaries to the banks in the system.

9. Bank holding companies are required to accumulate an appropriate reserve fund. ✓

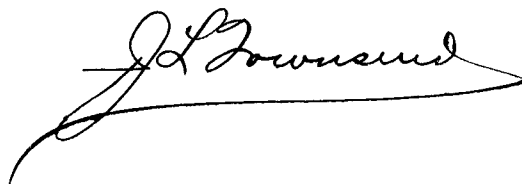
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10. The Board is given the authority to issue rules, regulations and orders necessary to enable it to administer and carry out the Act. The Board is also given authority to make investigations and to subpoena witnesses in aid of such investigations.

11. Any person aggrieved by any order of the Board is authorized to obtain a review of such order in the Circuit Court of Appeals.

12. The penalties for violating any of the provisions of the Act or of the rules, regulations or orders issued thereunder are: (a) a bank holding company shall not pay any salary to any officer or director of the company found by the Board to have participated in such violation, (b) no subsidiary bank shall pay dividends or any management or service charges to the bank holding company, (c) the bank holding company shall not thereafter vote the shares owned by it or participate in the management of any subsidiary bank, (d) a criminal penalty of \$10,000 or imprisonment of not more than two years or both is imposed upon those who wilfully violate the law or any rule, regulation or order issued thereunder.

A handwritten signature in cursive script, appearing to read "J. L. Townsend", with a long horizontal flourish extending to the right.