June 13, 1947

Honorable Charles W. Tobey, Chairman,
Senate Banking and Currency Committee,
Washington, D. C.

Dear Senator Tobey:

It is clear from their telegram to you of June 11th that A. P. and L. M. Giannini mean to do all in their power to defeat regulation of bank holding companies just as they have openly and covertly fought off public regulation of their giant Transamerica holding company for many years. The Transamerica banking empire consists of some 41 banks operating 619 banking offices with aggregate deposits exceeding 6-1/2 billion dollars. This is the vast, uncurbed enterprise which since 1934 has acquired 126 banks and 74 new branches spreading over the five-State area of California, Arizona, Nevada, Oregon and Washington, into 379 cities and towns, while at the same time controlling a variety of industrial and other businesses with aggregate resources of more than 275 million dollars.

It is not at all surprising, therefore, that the Gianninis, unlike the other major bank holding companies in the country, should now come out openly once more against any legislation designed, as is S. 829, to curb monopolistic development and prevent other abuses by subjecting the now ineffectively regulated holding companies to the same public regulation that applies to all State and national banks in this country. It is easy to understand why the Gianninis' telegram to you states that "the Eccles program is not in the public interest" and why it attempts to muddy the waters by a characteristic Giannini personal attack on me, none of which is germane to the real issue before the Congress, namely, the urgent need in the public interest to prevent the holding company device being used not only to create banking monopolies but to reach out into wholly unrelated fields, as individual banks are prevented from doing, to control all sorts of business enterprises.

It is ironic, but irrelevant, that A. P. Giannini alludes to me as "a bureaucratic despot" who, according to him, is trying "to suppress free institutions through the exercise of dictatorial powers masquerading as administrative discretion." These resounding generalities conveniently overlook the fact that the proposed legislation, far from being an "Eccles program", conforms to recommendations made in reports by the Federal Advisory Council of the Federal Reserve System, composed of a leading banker from each

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of the twelve Federal Reserve districts, and by the Association of Reserve City Bankers, representative of a large number of the leading banks of the country. They ignore the fact that the bill has the support of the two independent bankers associations, including that of the Twelfth Federal Reserve District which embraces the States where the Giannini empire continues to spread. They ignore the fact that the great majority of the major bank holding companies support this bill. It is odd that all of these responsible banking groups consider the legislation to be in the public interest, but the Gianninis do not. Their telegram would warrant no comment from me but for the fact that to ignore it might seem to give assent in its attempts to impugn my good faith and motives in seeking this regulatory legislation.

By innuendo their telegram makes two charges which, if stated bluntly, would be:

1. That, under the capital structure of the First Security Corporation of Ogden, Utah, a bank holding company in which the members of my family own in the aggregate between 15 and 20 per cent interest, voting rights are limited to less than one-eleventh of the total outstanding shares, while at the same time the voting shares receive over 8 per cent of all of the dividends paid. The Gianninis' telegram states that perhaps I "can explain why the bill is silent" in not requiring that every stockholder should have equal voting rights. While none of these assertions is germane to the problem now before the Committee, they may be shortly and simply explained.

First as to the facts. The First Security Corporation is a bank holding company. As such it now holds a voting permit under the provisions of the present bank holding company statute for each of the banks which it controls. This may be contrasted with the fact that, while Transamerica holds a majority stock interest in 24 member banks, it has obtained voting permits covering only 2 of such banks. If S. 829 becomes law, First Security will be subject to each and all of its regulatory provisions, the same as any other holding company.

The capital structure of First Security is divided into voting and non-voting shares. The non-voting shares represent those which have been issued over the years in exchange or payment for the stock of various banks which First Security has acquired. Contrary to the statement in the Gianninis' telegram, dividend rights as to each class of stock are identical. In addition -- a subject not mentioned in the telegram -- non-voting shares have a preferential right in liquidation to receive a stated amount before the voting shareholders receive anything.

So far as the silence of S. 829 on the subject of voting and non-voting shares of a bank holding company is concerned, it should be noted that neither the present law nor any previously proposed draft of new

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legislation contains any such provision. The reason for this is to be found in that part of Section 2 which defines the purpose of S. 829 to be "to subject the business and affairs of bank holding companies to the same type of examination and regulation as the banks which they control." In the light of this purpose and inasmuch as there is no requirement that the capital structure of a national bank conform to any fixed legislative formula respecting voting, it was not felt that such a requirement should be provided respecting bank holding companies. Let me add, however, that I have no objection to the inclusion of such a requirement should the Committee and the Congress deem it appropriate. Furthermore, even if such a provision were added, I doubt that the bill would gain favor in the eyes of the Gianninis or that such a provision would evoke their support of the bill. It may be assumed that if such had been their attitude, it would have been so stated in their telegram. As stated above, this entire subject was injected merely to cast an innuendo to the effect that there is something improper so far as my family interests are concerned, and this leads me to a consideration of their next charge:

2. This seems to be to the effect that my family and I, either directly or through a family investment company, control the First Security Corporation, and that the various interests which the family investment company owns would be affected by the bill were it not for certain changes which have been made in the definition of a bank holding company since the first holding company bill was introduced in 1945, or if the full definition contained in the Utility Act had been followed in S. 829. The plain implication of the Gianninis' telegram is that I caused these changes to be made in order to protect the interests of the Eccles family investment company in its holdings of various non-banking interests.

This is a deliberate and malicious falsehood. In the first place, the Eccles family does not control First Security, either directly or through any company. There is a family investment company, called the Eccles Investment Company, which was organized more than 32 years ago upon my father's death for the purpose of holding and managing certain assets of his estate for the benefit of my mother and nine children, seven of whom were then minors. I was advised at that time by attorneys and business associates to form this company, and it has since continued to hold real estate, bonds, notes and stocks of various business corporations. Included in the assets of the Eccles Investment Company is the ownership of a little over 4 per cent of the outstanding shares of First Security, consisting of one-half of 1 per cent of the non-voting and 44 per cent of the voting shares. A similar number of its voting shares are owned by another family investment company, the J. M. & M. S. Browning Company, a corporation in which neither myself, the members of my family, nor the Eccles Investment Company have any interest whatsoever. Nor does the Browning Company have any interest in the Eccles Company. In recent years the shares of First Security which are owned by the Eccles

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Investment Company, together with those owned by the Browning Company (aggregating in excess of 80 per cent of the voting shares), have been deposited in an agreement of trust under the management of four trustees, two of whom are my brothers and two of whom are members of the Browning family. I sold my stock in and severed all connections with First Security when I took my present office. Such interest as I have in that company is only by reason of my one-ninth interest in the Eccles Investment Company.

It is obvious from the above that the Eccles Company has neither the power to nor does it in fact control First Security. Even if it did, however, the matter would still be irrelevant because under the plain terms of S. 829 that company would then also be a bank holding company and as such would be subject to all the regulatory provisions of the bill.

There is a difference between the definition of a bank holding company contained in S. 829 and that contained in the first draft of the proposed bank holding company legislation submitted to Congress by the Board -- as indeed there are other differences of a much more fundamental and important character. The difference in the definition is that under the first bill a group of individuals could be declared to be bank holding companies (under the Utility Act an individual can also be held to be a holding company) whereas under S. 829 the definition is limited solely to companies. The reason for the change in definition was the attack upon the bill, instantly made by bankers throughout the country upon the ground, among others, that the definition was too all-inclusive and offended against the traditional concept of individual enterprise in banking. Consequently, when Congress failed even to hold hearings on the original bill, the Board reconsidered the entire subject in the light of all objections to the first bill and attempted to devise legislation which would accomplish what the Board considered necessary for effective regulation but without being carried to the extremes stated in its first bill and which gave promise of sufficient public support to secure its ultimate enactment. As the Committee is aware, there have been a number of suggested refinements and amendments to S. 829 since its introduction at the present session, all of which have been recommended as a result of the continuing effort of the Board to overcome legitimate objections to the bill without sacrificing any of its essential objectives.

Finally, I should like to point out that all of my family, business, and former banking connections were exhaustively investigated and considered by the Senate Banking and Currency Committee at hearings on April 15 and 19, 1935, when I was first nominated to the Reserve Board. After this thorough inquiry I was confirmed by the Senate with only one

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dissenting vote, and subsequently I have been confirmed on three additional occasions without any dissenting votes. In view of these facts, of which you may be sure the Gianninis are fully advised, their evident purpose is to becloud the real issue by the time-worn, defensive tactic of trying to create a diversion.

Sincerely yours,

(Signed) M. S. Eccles

M. S. Eccles,
Chairman.

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