May 23, 1935.

Mr. A. P. Giannini, Chairman,
Bank of America N. T. & S. A.,
San Francisco, California.

Dear Mr. Giannini:

This refers to my previous letter on the subject of the proposed amendments to the Banking Bill of 1935. You will recall I stated that we were considering the matter of your suggestion with reference to compulsory accumulation of surplus by bank holding companies. I am, therefore, enclosing two proposed amendments, labeled A and B, on the subject.

Proposal A is simpler than B and does away with any required surplus except as to stocks with double liability. Our Legal Department, however, feels that the present law indicates an intent by Congress to require some surplus regardless of any double liability. For that reason they have indicated a preference for proposal B as more likely to meet with favorable reception by Congress.

These proposals are forwarded to you in line with the previous understanding that you would use your own means of getting them before the Senate Committee. As stated, we have been glad to assist in the matter of drafting your suggestions and feel that the purpose behind them is entirely consistent and equitable in view of the existing provisions of the law providing for elimination of double liability of stock of national banks. Another desirable result is the elimination of required surplus as to State member bank stock holdings where no double liability attaches under the law of the State where such banks are organized. Obviously it is unreasonable and useless to require the accumulation of surplus when such surplus would not be legally available to protect depositors in such banks.

With best wishes, I am

Sincerely yours,

(Signed) Lawrence Clayton

Lawrence Clayton,
Assistant to the Governor.

Stamp

LC/lem
Enclosure.

A

PROPOSED AMENDMENT TO H.R. 7617.

At the end of section 311 (page 66, line 4) add the following new subsections:

(c) Section 5144 of the Revised Statutes, as amended, is amended by adding at the end of paragraph (e) thereof a new paragraph as follows:

> "Notwithstanding any of the foregoing provisions of this section, the amount of readily marketable assets other than bank stock which a holding company affiliate is required to possess under the provisions of paragraphs (b) and (c) of this section shall be based upon the amount of the statutory liability imposed upon the holding company affiliate by reason of its control of bank stock rather than upon the aggregate par value of such bank stock."

The above amendment would require the building up of reserves by bank holding companies on the basis of the amount of the statutory liability on bank stocks held by the holding companies rather than on the basis of the aggregate par value of such stocks as is now provided in the law. Thus, if such an amendment is enacted, holding companies, in determining the amount of required reserve, would disregard non-assessable bank stocks held by such companies.

PROPOSED AMENDMENT TO H. R. 7617

At the end of section 311 (page 86, line 4) add the following new subsection:

(c) Section 5144 of the Revised Statutes of the United States, as amended, is amended by adding at the end of subsection (c) thereof the following:

> "and the provisions of this subsection, instead of subsection (b), shall apply to all holding company affiliates with respect to any shares of bank stock owned or controlled by them as to which there is no statutory liability imposed upon the holders of such bank stocks;"

This amendment is drawn in the light of the apparent intention of Congress that holding companies should build up adequate reserves, not only to take care of double liability, but also in order to be able to come to the assistance of any banks controlled. Such companies, therefore, should build up adequate reserves to assist any banks controlled, even though the stock of such banks does not carry a double liability.