FEDERAL RESERVE BANK OF ST. LOUIS

ST. LOUIS 2, MISSOURI

October 31, 1946

Board of Governors of the
Federal Reserve System
Washington 25, D. C.

Attention: Mr. Marriner S. Eccles
Chairman

Gentlemen:

The attached report on legislation was approved by the Presidents' Conference on October 1. In its original form, the report was prepared by the Subcommittee on Legislation, composed of C. O. Hardy, Paul W. McCracken, W. J. Davis, Lewis H. Carstarphen, and Harold V. Roelse, Chairman. The original report was considered and modified in some respects by the Committee on Legislation at its meeting on September 30. A summary of the report was submitted to the Board of Governors at the Joint Meeting on October 4, at which time it was agreed that copies of the full report would subsequently be made available by the Committee on Legislation.

Very truly yours

Chester C. Davis

Chester C. Davis, Chairman
Committee on Legislation
Conference of Presidents

October 4, 1946.

REPORT on LEGISLATION

(Prepared by Subcommittee; modified and approved by Committee on Legislation, and by the Presidents' Conference)

LOANS UNDER SECTION 13b OF THE FEDERAL RESERVE ACT

It has been generally recognized throughout the Federal Reserve System for some time that the legislative authority for loans to commercial and industrial enterprises made by, or participated in directly or indirectly by, the Federal Reserve Banks is unduly restrictive. Various proposals for modification of the law have been advanced without success over a period of years, and in May 1946 the Board of Governors sent to the President of each Reserve Bank a copy of a draft of a very simple bill which would eliminate Section 13b entirely and would amend the last paragraph of Section 13 in such a way as to give the Reserve Banks broad authority to make advances to individuals, partnerships, or corporations and to guarantee, or make commitments for the purchase of, loans made by other financial institutions.

This proposal was discussed at the June meeting of the Presidents' Conference and at the ensuing meeting of the Presidents with the Board of Governors. It was the consensus of the Presidents that the Reserve Banks should continue to have authority to make and participate in loans to commercial and industrial enterprises as well as to make commitments with respect to loans made by other lending institutions. There was some question as to the form such legislation should take - whether Section 13b should be eliminated and the last paragraph of Section 13 amended, as suggested by the Board, or whether Section 13b should be amended and Section 13 left unchanged. There was some thought that the proposed amendment of the last paragraph of Section 13 might raise questions as to the status of loans on Government securities, which are now specifically authorized by that paragraph, and might therefore be undesirable under present circumstances. It appears to be the view of the majority that the proposed amendment of the last paragraph of Section 13 would be too broad an authorization and that retention of some restrictive provisions would be desirable. In fact, they would probably be necessary if the proposed legislation is to be acceptable to Congress, since the sweeping character of the lending authority under the proposed amendment of the last paragraph of Section 13 would be much more likely to encounter strong opposition than a more limited authority which could readily be provided by appropriate amendment of Section 13b.

The modifications recommended by the Legislative Subcommittee and the Legislative Committee, and approved by the Presidents' Conference, are shown in the attached draft of Section 13b of the Federal Reserve Act, including proposed deletions and additions. (Deletions lined out; and additions underlined.)

In substance, the recommendations and the reasons therefor are:

1. The requirement that funds be advanced for "working capital" purposes only should be eliminated.

   Substantial changes in business requirements following the war have led to a demand for increased volume and for new and improved equipment, the acquisition of which would improve the competitive and credit positions of many enterprises, particularly those of small and medium size.

2. The requirement that advances be made to "established" business should be eliminated.

   The phrase "established business" leads to some confusion, as for example, a new enterprise may not be an "established business" even though the line of business is established and changes in management are minor.

3. The provision with respect to Industrial Advisory Committees should be eliminated.

   These Committees have apparently outlived their usefulness and the procedure has become ineffective.

4. The present requirement that the Reserve Banks may make loans to business enterprises only when such borrowers are unable to obtain requisite financial assistance "on a reasonable basis from the usual sources" should be retained and extended so as to apply to guarantees and commitments.

   While it is not desirable to limit operations to "exceptional circumstances," elimination of the basic requirement might be taken to mean that the Reserve Banks intend to compete with commercial banks.

5. The limitation to five-year maximum maturities should be retained.

   Two of the Reserve Banks thought it might not be desirable to impose definite maturity limitations, but, on the other hand, the majority regards five years as a long enough period for a firm commitment and recognizes a growing belief that the conditions of term loans are already becoming undesirably liberal.

6. The requirement that local banks maintain a 20 per cent interest in loans in which they participate with a Federal Reserve Bank or hold a commitment should be retained.

   (a) This provision does not appear to restrict the amount of local bank participation and it seems desirable to encourage the local bank to maintain a substantial interest, particularly when it is the active lender.

   (b) Under the Blanket Guarantee Plan of the RFC a participation of at least 25 per cent is required by the local bank, and a further liberalization of terms by the Reserve Bank might lead to competitive relaxation of standards.

7. Provision should be made for the repayment to the Secretary of the Treasury of funds previously advanced to the Federal Reserve Banks under the terms of Section 13b.

8. There should continue to be a limitation on the total amount of funds which Reserve Banks may lend.

   While the volume of credit extended by Reserve Banks under Section 13b could not be expected to be great under the most liberal authority, it seems desirable as a matter of principle to limit extensions or commitments to make extensions to some specified amount, such as the combined surplus of all Reserve Banks.

Proposed Revision of Section 13b

Sec. 13b. (a) ~~In exceptional circumstances,~~ When it appears to the satisfaction of a Federal reserve bank that an ~~established~~ industrial or commercial business located in its district is unable to obtain requisite financial assistance on a reasonable basis from the usual sources, the Federal reserve bank, pursuant to authority granted by the Board of Governors of the Federal Reserve System, may make loans to, or purchase obligations of, such business, or may make commitments with respect thereto, on a reasonable and sound basis, ~~for the purpose of providing it with working capital,~~ but no obligation shall be acquired or commitment made hereunder with a maturity exceeding five years.

(b) Each Federal reserve bank shall also have power to discount for, or purchase from, any bank, trust company, mortgage company, credit corporation for industry, or other financing institution operating in its district acting for itself or as agent or trustee for itself and other participating financing institutions, obligations having maturities not exceeding five years, entered into ~~for the purpose of obtaining working capital for~~ by any ~~established~~ industrial or commercial business which is unable, in the judgment of the Federal Reserve Bank, to obtain requisite financial assistance on a reasonable basis from the usual sources; to make loans or advances direct to any such financing institution on the security of such obligations; and to make commitments with regard to such discount or purchase of obligations or with respect to such loans or advances on the security thereof, including commitments made in advance of the actual undertaking of such obligations. Each such financing institution shall obligate itself to the satisfaction of the Federal reserve bank for at least 20 per centum of any loss which may be sustained by such bank upon any of the obligations acquired from such financing institution, the existence and amount of any such loss to be determined in accordance with regulations of the Board of Governors of the Federal Reserve System. ~~Provided, That in lieu of such obligation against loss any such financing institution may advance at least 20 per centum of such working capital for any established industrial or commercial business without obligating itself to the Federal reserve bank against loss on the amount advanced by the Federal reserve bank; Provided, however, That such advances by the financing institution and the Federal reserve bank shall be considered as one advance, and repayment shall be made pro rata under such regulations as the Board of Governors of the Federal Reserve System may prescribe.~~

(c) The aggregate amount of loans, advances, and commitments of the Federal reserve banks outstanding under this section at any one time, plus the amount of purchases and discounts under this section held at the same time, shall not exceed the combined surplus of the Federal reserve banks, ~~as of July 1, 1934, plus all amounts paid to the Federal reserve banks by the Secretary of the Treasury under subsection (e) of this section,~~ and all operations of the Federal reserve banks under this section shall be subject to such regulations as the Board of Governors of the Federal Reserve System may prescribe.

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~~(d) For the purpose of aiding the Federal reserve banks in~~ carrying out the provisions of this section, there is hereby established in each Federal reserve district an industrial advisory committee, to be appointed by the Federal reserve bank subject to the approval and regulations of the Board of Governors of the Federal Reserve System, and to be composed of not less than three nor more than five members as determined by the Board of Governors of the Federal Reserve System. Each member of such committee shall be actively engaged in some industrial pursuit within the Federal reserve district in which the committee is established, and each such member shall serve without compensation but shall be entitled to receive from the Federal reserve bank of such district his necessary expenses while engaged in the business of the committee, or a per diem allowance in lieu thereof to be fixed by the Board of Governors of the Federal Reserve System. Each application for any such loan, advance, purchase, discount, or commitment shall be submitted to the appropriate committee and, after an examination by it of the business with respect to which the application is made, the application shall be transmitted to the Federal reserve bank, together with the recommendation of the committee.

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(e) In order to enable the Federal reserve banks to make the loans, discounts, advances, purchases, and commitments provided for in this section, the Secretary of the Treasury, on and after June 19, 1934, is authorized, under such rules and regulations as he shall prescribe, to pay to each Federal reserve bank not to exceed such portion of the sum of $139,299,557 as may be represented by the amount paid by each Federal reserve bank for stock of the Federal Deposit Insurance Corporation, upon the execution by each Federal reserve bank of its agreement (to be endorsed on the certificate of such stock) to hold such stock unencumbered and to pay to the United States all dividends, all payments on liquidation, ~~and all other proceeds of such stock, for which dividends,~~

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~~payments, and proceeds the United States shall be secured by such~~ stock itself up to the total amount paid to each Federal reserve bank by the Secretary of the Treasury under this section. Each Federal reserve bank, in addition, shall agree that, in the event such dividends, payments, and other proceeds in any calendar year do not aggregate 2 per centum of the total payment made by the Secretary of the Treasury, under this section, it will pay to the United States in such year such further amount, if any, up to 2 per centum of the said total payment, as shall be covered by the net earnings of the bank for that year derived from the use of the sum so paid by the Secretary of the Treasury, and that for said amount so due the United States shall have a first claim against such earnings and stock, and further that it will continue such payments until the final liquidation of said stock by the Federal Deposit Insurance Corporation. The sum so paid to each Federal reserve bank by the Secretary of the Treasury shall become a part of the surpous fund of such Federal reserve bank within the meaning of this section. All amounts required to be expended by the Secretary of the Treasury in order to carry out the provisions of this section shall be paid out of the miscellaneous receipts of the Treasury created by the increment resulting from the reduction of the weight of the gold dollar under the President's proclamation of January 31, 1934; and there is hereby appropriated, out of such ~~receipts, such sum as shall be required for such purpose.~~

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(d) Subsection 13b (e) of the Federal Reserve Act (12 U.S.C., section 352a) is hereby repealed; but such repeal shall not affect the power of any Federal reserve bank to carry out, or to protect its interest under, any agreement heretofore made in carrying on operations under that section. Within sixty (60) days after the enactment of this Act, each Federal reserve bank shall pay to the United States the aggregate amount which the Secretary of the Treasury has heretofore paid to such bank under the provisions of section 13b of the Federal Reserve Act, together with any net earnings thereon for the period from January 1, 1946 to the date on which such payment to the United States is made; and such payment shall constitute a full discharge of any obligation or liability of the Federal reserve bank to the United States or to the Secretary of the Treasury arising out of subsection (e) of said section 13b or any agreement thereunder.

CAPITAL REQUIREMENTS FOR MEMBERSHIP IN THE FEDERAL RESERVE SYSTEM

At its meeting on June 8, 1946 the Conference of Presidents expressed the view that the capital requirements for the admission of State banks to membership in the Federal Reserve System should be changed, particularly with respect to banks having branches. 1:

Since the capital required of a State bank for admission to the Federal Reserve System is based largely upon the capital required for the establishment of national banking associations, any amendment to the statutes changing the capital requirements of national banking associations is of great importance to the Federal Reserve System. On February 28, 1946 Mr. Hays introduced in the House of Representatives a bill (H.R. 5630) to amend subsections (c) and (d) of section 5155 of the revised statutes relating to the establishment of branches by national banking associations. Under the proposed amendment the general requirement of an aggregate capital of $500,000 for a national bank with branches contained in subsection (c) would be lowered to $100,000 and the exceptions to the $500,000 requirement eliminated. Subsection (d), which reads as follows:

> "The aggregate capital of every national banking association and its branches shall at no time be less than the aggregate minimum capital required by law for the establishment of an equal number of national banking associations situated in the various places where such association and its branches are situated".

would be eliminated and a new subsection (d) substituted therefor. The new subsection provides in general that in approving the establishment of any branch the Comptroller shall give consideration to the financial history and condition of the bank, the adequacy of its capital structure, its prospects, management and the convenience and needs of the community to be served. A copy of the Hays Bill is attached hereto for further reference.

It is the consensus of the Subcommittee that while the Hays Bill, if enacted, would be an improvement over the provisions of the statute which it seeks to amend, its provisions are unwise from at least one standpoint and insofar as it would affect membership of State banks with branches in the Federal Reserve System, its provisions are inadequate to achieve the desired result in all districts.

The provisions of the Hays Bill seem ill-advised in that so far as the provisions of the statute are concerned the minimum capital required would be the same for a bank with one branch as for a bank with twenty branches. While subsection (d) of the Hays Bill directs the Comptroller of the Currency to give consideration to the adequacy of a national bank's capital structure

before approving the establishment of any branch, the Subcommittee believes that the statute should set minimum capital standards for banks and that this principle should also apply to each branch which a bank may establish.

Since the Federal Reserve Act provides in general that no applying State bank shall be admitted to membership unless it possesses capital sufficient to entitle it to become a national banking association, the Hays Bill, if enacted, would require a minimum capital of $100,000 for admission to membership of a State bank having one or more branches. The Subcommittee believes that in some Federal reserve districts such a capital requirement would exclude from membership many banks with branches whose aggregate capital is less than $100,000 and who would not be justified, considering the deposit volume of such banks and the sizes of communities which they serve, in increasing capital to a minimum of $100,000.

The Subcommittee believes that instead of enacting the Hays Bill, it would be preferable to amend only subsection (c) of section 5155 by the elimination of all reference to the specific dollar amount of capital required, and to allow subsection (d) to remain as it is, with an added proviso to prevent avoidance of the requirements of State law. If this suggestion were followed, subsections (c) and (d) would read as follows: (That part of subsection (c), which it is proposed to eliminate, has been ruled out and the new matter in subsection (d) underlined.)

> (c) A national banking association may, with the approval of the Comptroller of the Currency, establish and operate new branches: (1) Within the limits of the city, town or village in which said association is situated, if such establishment and operation are at the time expressly authorized to State banks by the law of the State in question; and (2) at any point within the State in which said association is situated, if such establishment and operation are at the time authorized to State banks by the Statute law of the State in question by language specifically granting such authority affirmatively and not merely by implication or recognition, and subject to restrictions as to location imposed by the law of the State on State banks. In any State in which State banks are permitted by statute law to maintain branches within county or greater limits, if no bank is located and doing business in the place where the proposed agency is to be located, any national banking association situated in such State may with the approval of the Comptroller of the Currency, establish and operate, without regard to the capital requirements of this section, a seasonal agency in any resort community within the limits of the county in which the main office of such association is located, for the purpose of receiving and paying out deposits, issuing and cashing checks and drafts, and doing business incident thereto;

Provided, That any permit issued under this sentence shall be revoked upon the opening of a State or a national bank in such community. ~~Except as provided in the immediately preceding sentence, no such association shall establish a branch outside of the city, town, or village in which it is situated unless it has a paid in and unimpaired capital stock of not less than $500,000; Provided, That in States with a population of less than one million, and which have no cities located therein with a population exceeding one hundred thousand, the capital shall be not less than $250,000; Provided, That in States with a population of less than one half million, and which have no cities located therein with a population exceeding fifty thousand, the capital shall not be less than $100,000.~~

(d) The aggregate capital of every national banking association and its branches shall at no time be less than the aggregate minimum capital required by law for the establishment of an equal number of national banking associations situated in the various places where such association and its branches are situated, nor less than the aggregate minimum capital which would be required by the law of the State wherein such national banking association is located were such national bank a State bank organized under the laws of that State.

This suggestion, so far as national banks are concerned, would have the same effect as the Hays Bill in that it would require a minimum capital of $100,000 for a national bank with one branch. It differs from the Hays Bill, however, in that it would require an additional $50,000 capital for each branch over one which the national bank might establish, whereas the Hays Bill would not require any additional capital for any branches over one, except as might be required by the discretion given to the Comptroller of the Currency. The suggested amendment to section 5155, set forth above, seems more logical and consistent than the Hays Bill in that it would make the capital requirements for a national bank with branches identical with those of unit national banks which are subsidiaries of a holding company.

Whether the Hays Bill or the suggestion made here be adopted, or even if section 5155 be not amended in any respect, it is recommended that the provision of the Federal Reserve Act relating to the admission of State banks with branches be amended.

Paragraph 10 of section 9 of the Federal Reserve Act now reads as follows:

"No applying bank shall be admitted to membership in a Federal reserve bank unless it possesses a paid-up unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated under the provisions of the National Bank Act, as amended:

> Provided, That this paragraph shall not apply to State banks and trust companies organized prior to the date this paragraph as amended takes effect and situated in a place the population of which does not exceed three thousand inhabitants and having a capital of not less than $25,000, nor to any State bank or trust company which is so situated and which, while it is entitled to the benefits of insurance under section 12B of this Act, increases its capital to not less than $25,000."

It is suggested that the period at the end of this paragraph be changed to a colon, and that there be added to such paragraph substantially the following:

> Provided, however, that this paragraph shall not apply to State banks and trust companies having a branch or branches, but any such bank or trust company shall not be admitted to membership in a Federal reserve bank unless the aggregate capital of such bank or trust company and its branches is equal to the aggregate minimum capital required by law for admission to membership in a Federal reserve bank of an equal number of State banks or trust companies situated in the various places where such State bank or trust company and its branches are situated.

Such an amendment would make the capital of a State member bank with branches consistent with that required of unit State banks which are subsidiaries of a holding company. It is believed that the requirements would be sufficiently low to admit to membership any State bank whose location and prospects are such as to make it a desirable member bank. Under this plan if a State bank had one branch and both its offices were located in towns of less than three thousand population, it could become a member with a minimum of $50,000 capital.

The Committee on Legislation reported briefly to the Conference regarding minimum capital requirements of unit banks. Pursuant to the Committee's recommendation, this matter was referred back to the Committee for further study; and no opinion is expressed by the Conference with respect to this matter at this time.

PROPOSED HOLDING COMPANY ACT

For some time present provisions of law relating to the regulation of bank holding companies have been considered to be inadequate, particularly since under existing statutes such control is largely indirect. On April 30, 1946, Mr. Spence introduced in Congress a bill (H.R. 6225), drafted under the direction of the Board of Governors of the Federal Reserve System, designed to remedy the situation by providing for direct control of bank holding companies, and otherwise to strengthen existing statutory provisions for their control. A copy of this bill is attached hereto for ready reference.

The Subcommittee has given careful consideration to the provisions of this bill and to suggestions relating thereto made by various Federal reserve banks.

Probably the most important question involved is the extent to which it is advisable and feasible from a practical standpoint to restrict the expansion of bank holding companies.

Historically the so-called bank holding company arose largely as a device to evade laws prohibiting branch banking; logically, therefore, prohibitions and restrictions on bank holding companies should be consistent with those on branch banking where branch banking is permitted. The object in restricting the expansion of the activities of bank holding companies, insofar as the acquisition of additional banking facilities is concerned, is to prevent monopoly and the domination of the credit facilities of a community or section by one group, and to prevent the use of resources of banks in a holding company for purposes that may be undesirable. While it would seem impractical and inadvisable to attempt to force a bank holding company to divest itself of control of any banking facility which it now has, it was the consensus of the Subcommittee that some definite statutory restriction should be placed upon the acquisition of any additional banking facilities by such a holding company, Various suggestions in this regard have been made. It has been suggested that further acquisition of banking facilities by a holding company be prohibited outside the state where the principal office of the holding company is located; or that acquisition of new facilities be prohibited outside the Federal Reserve district or Federal Reserve head office or branch territory wherein the principal office of the holding company is located. It has also been suggested that the total number of bank subsidiaries of a holding company be limited.

It is arguable that since Congress has left the matter of determining whether or not a bank may have branches to the States, further acquisition of banking facilities by a holding company should be restricted to State lines so that in the States where branch banking is permitted the bank holding company would not from this standpoint be more attractive than the establishment of

might tend to lessen competition between holding companies. Apparently only a few existing holding companies have subsidiaries in more than one State. The members of the Subcommittee do not agree on the advisability of such a restriction and no recommendation regarding this proposal is made.

Whether or not a territorial restriction on further expansion is adopted, the Subcommittee suggests that the statute should contain specific provisions designed to prevent or minimize monopoly by a holding company in any community or section. It is believed that a practical approach to achieve this objective might be a provision in the statute which would prohibit a holding company from acquiring any additional banking facilities in any county in which the holding company already controlled banking facilities having more than some specified percentage of the total deposits of such county or other local area. Such percentage might be 20%, 25% or 30%, or some other percentage as deemed advisable. If such a limitation is adopted, the statutes should also contain a provision prohibiting a holding company from acquiring any new banking facilities in a state where the banking facilities already controlled by such holding company have more than some specified percentage of the total deposits of all banks in the State. This percentage might or might not be the same as that specified in the preceding suggestion regarding counties.

It should be noted that if there is only one bank in the county the above suggestion would not prohibit its acquisition by a holding company unless the statewide limitation was applicable. The plan, however, is believed to provide as broad protection against monopoly as is practicable, and to be easily understandable and workable.

It has been suggested that such restrictions might result in certain hardship cases where some holding company might be the only interest willing to provide a banking facility for a community which was in need of it. While an exception for such cases might be provided, the Subcommittee has doubts as to the necessity for such an exception.

It may be argued that the discretion to be vested in the Board of Governors under H.R. 6225 is sufficiently broad to accomplish the same objective for which the above suggestions are made. Nevertheless, the Subcommittee believes that it is advisable to establish minimum statutory restrictions on expansion. It is believed that such statutory restrictions might well enhance the possibilities of passage of the bill.

It has been suggested that section 7 in its present form permits a subsidiary bank to invest its funds in the obligations of the bank holding company of which it is a subsidiary or in the obligations of another subsidiary of such holding company on more favorable terms than it may accept such obligations as collateral. It has also been suggested that no subsidiary bank should be

permitted to invest any of its funds in or make loans on the security of the capital stock of (1) a holding company of which it is a subsidiary or (2) any subsidiary of such holding company. Another suggestion is that it would be preferable to include in section 7 a full description of the collateral necessary to support loans by a subsidiary bank to its holding company or any subsidiary thereof, rather than to refer to another section of the statute. The Subcommittee believes that a subsidiary bank should not be permitted to invest its funds in "family" obligations on a more favorable basis than it can make loans on such obligations; and that it should be prohibited from owning or making loans on the stock of "family" interests on the same theory that it is prohibited from owning or making loans on its own stock. The Subcommittee also believes that it is preferable to have the description of collateral contained in the section, rather than have such description incorporated by reference to another section. It is therefore recommended that section 7 be changed to read substantially as follows (Deletions lined out, additions underlined):

> Sec. 7 (A). No bank shall (1) make any loan or any extension of credit to, or purchase securities under repurchase agreement from, (a) a bank holding company of which it is a subsidiary, or (b) a subsidiary of such bank holding company; or (2) invest any of its funds in the ~~capital stock~~, bonds, debentures, or other such obligations of any such bank holding company or subsidiary; or (3) accept the ~~capital stock~~, bonds, debentures, or other such obligations of any such bank holding company or subsidiary as collateral security for loans or advances made to any person, partnership, association, or corporation, if the aggregate amount of such loans, extensions of credit, repurchase agreements, investments, and advances against such collateral security will exceed 10 per centum of the capital stock and surplus of such bank. Within the foregoing limitations, each loan or extension of credit of any kind or character to such bank holding company or subsidiary shall be secured ~~in the manner and to the extent prescribed by section 23A of the Federal Reserve Act, as amended, with respect to loans and extensions of credit by member banks to their affiliates~~ by collateral in the form of stocks, bonds, debentures, or other such obligations having a market value at the time of making the loan or extension of credit of at least 20 per centum more than the amount of the loan or extension of credit, or of at least 10 per centum more than the amount of the loan or extension of credit if it is secured by obligations of any state or of any political subdivision or agency thereof; Provided, that no margin of collateral shall be required when such loan or extension of credit is secured by obligations of the United States Government, the Federal Intermediate Credit banks, the Federal Land banks, the Federal Home Loan banks, or the Home Owners' Loan Corporation, or by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible

for rediscount or for purchase by Federal Reserve banks. No bank shall invest any of its funds in the bonds, debentures, or other such obligations of a bank holding company of which it is a subsidiary or those of a subsidiary of such bank holding company, unless the same are secured in the manner and to the extent above required for loans and extensions of credit made by a bank to a bank holding company of which it is a subsidiary or to a subsidiary of such bank holding company.
(B). No bank shall invest any of its funds in the capital stock of (1) a bank holding company of which it is a subsidiary or (2) a subsidiary of such bank holding company.

(C). No bank shall accept the capital stock of (1) a bank holding company of which it is a subsidiary, or (2) a subsidiary of such bank holding company as collateral security for advances made to any person, partnership, association, or corporation.

(D). The provisions of this section shall not apply to (1) any company of the types described in section 5 (b) of this Act, or (2) any company whose subsidiary status has arisen out of a bona fide debt to the bank contracted prior to the date of the creation of such status, or (3) any company whose subsidiary status exists by reason of the ownership or control of voting shares thereof by the bank as executor, administrator, trustee, receiver, agent, or depositary, or in any other fiduciary capacity, except where such shares are held for the benefit of all or a majority of the stockholders of such bank.

It has been pointed out that since differences in reserve requirements sometimes exist between nonmember and member State banks, and since all member banks are required to carry their reserves with the Federal Reserve bank, consideration should be given to including in the bill provisions tending to neutralize the advantages accruing to a holding company group which discourages membership in the System of subsidiary banks, except the key bank, and has their reserves deposited in the key bank.

The Conference is disturbed by the possibility of a holding company discouraging Federal Reserve membership for its subsidiary banks except the key bank and encouraging such banks to deposit their reserves in the key bank. While the Conference now sees no practical solution to this problem, it believes that the problem should continue to receive careful consideration and study by the Board.

It has also been suggested that under the bill the opportunity exists in connection with any bank holding company group for pyramiding and "window dressing" of deposits through manipulation of interbank accounts by the subsidiary banks of a holding company. It has been suggested that abuses through such inter-bank deposits might be avoided by amending the bill to require banking subsidiaries of a holding company to submit and publish reports of condition on the basis of "netting" interbank balances within the group in a manner consistent with the treatment accorded bilateral "reciprocal accounts" under existing policy. The Subcommittee feels that if the danger of an abuse arising out of manipulation of deposits by the banking subsidiaries does exist, the Board of Governors could by regulation require reports of condition to be submitted and published substantially in accordance with the suggestion above set forth without any provision in this regard being included in the statute.

Section 6(c) on page 9 of the bill reads as follows:

> "(c) No plan, undertaking, or agreement by or on behalf of a banking subsidiary of a bank holding company to acquire all or substantially all of the assets of any bank shall be consummated, effectuated, or completed except with the prior approval of (1) the Comptroller of the Currency if the acquiring bank is a national bank or district bank; or (2) the Board if the acquiring bank is a State member bank; or (3) the Federal Deposit Insurance Corporation in the case of any other acquiring bank."

The Subcommittee doubts the wisdom of delegating all the authority for approval of the acquisition by a banking subsidiary of a bank holding company of the assets of another bank to the Comptroller of the Currency where the acquiring bank is a national or a district bank and to the FDIC where the acquiring bank is a non-member State bank. The Subcommittee believes that while the consent of the Comptroller of the Currency and of the FDIC should be obtained in appropriate cases, the consent of the Board of Governors should be required in all cases. It is, therefore, suggested that section 6 (c) be amended to read as follows:

> (c) No plan, undertaking, or agreement by or on behalf of a banking subsidiary of a bank holding company to acquire all or substantially all of the assets of any bank shall be consummated, effectuated, or completed except with the prior approval of the Board; and (a) the Comptroller of the Currency if the acquiring bank is a national bank or a district bank; or (b) the Federal Deposit Insurance Corporation if the acquiring bank is an insured bank which is not a State member bank.

Under the bill, as introduced in Congress, an individual or a group of individuals which cannot be shown to be "organized" cannot be brought under the term "bank holding company". It has been suggested that this leaves a loophole in the bill regarding at least a few troublesome situations which already exist and one which may be resorted to in the future by those desiring to avoid the provisions of the act. The bill provides two categories of interests to which its provisions apply. Those in the first category are subject automatically to the provisions of the act unless the Board upon application shall by order declare the interest in question not to be a holding company. Those in the second category are subject to the provisions of the act only if the Board determines after notice and opportunity for hearing that the interest exercises such a controlling influence over the management or policies of two or more banks as to make it necessary or appropriate in the public interest or for the protection of investors or depositors that such interest be subject to the act. It has been suggested that individuals be included in the second category so that they might be brought within the act by the Board, in individual cases, if this were deemed necessary. It is argued that such a change would also prevent the evasion or attempted evasion of the act by the holding of bank stock in individual names. On the other hand, it is argued that such a change would make coverage of the act much broader than is necessary, would create an administrative problem and might be too harsh, particularly insofar as nonbanking interests of individuals might become involved. The Conference makes no recommendation with respect to this suggestion.