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June 2, 1947.

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

Dear Senator Tobey:

During the course of my testimony the other morning respecting the proposed bank holding company legislation (S. 829), I was asked by one of the members of the Committee to amplify my remarks concerning that phase of Section 5(c) of the bill which permits a bank holding company to acquire shares of nonbanking organizations from its subsidiary power to examine such subsidiaries". I am happy to do so and am sending this letter to you with the request that it be inserted in the record of the hearings on S. 829.

In the first place, it should be noted that Section 5(c) provides an exemption from the positive prohibition contained in Section 5(a) against bank holding companies, after two years after the effective date of the Act, owning any securities of nonbanking organizations. The fundamental purpose of Section 5(c) is to permit bank holding companies to do so whenever it may be necessary in order to protect any of the banks which are part of the holding company system. However, the Board did not want the exemption to be so broad as to permit the holding company to take over such shares under all circumstances because it was felt that such a provision might very well offer a loophole for evading the direct prohibition stated above. It was felt, therefore, that a provision which conditions the taking over of such securities upon a previous "request" from the examining authorities would serve to minimize this danger while at the same time offering a ready protection to the banks in the holding company system.

Upon reexamining the language of Section 5(c), however, I find that a literal interpretation of that language would seem to require that the "request" be made by the examining authorities of the bank holding company itself. This explains the question which both you and Senator Buck raised as to the propriety of such a "request", particularly in those cases where the holding company does not own all of the outstanding shares of the bank involved. What we really intended to do was to allow a holding company to take over such securities whenever a bank in the holding company system had been requested by the examining authorities to dispose of such securities. I think that this result, together with that sought by the amendatory language already submitted, can be obtained by amending the first sentence of Section 5(c) down to the semicolon on line 22, page 7, to read as follows:

> "Nor shall the prohibitions in this section apply to voting shares, securities or obligations acquired by a bank holding company from any of its subsidiaries which have been requested to dispose of such voting shares, securities or obligations by any Federal or State authority having statutory power to examine such subsidiaries, or which have been acquired from such subsidiaries with the prior approval of the Board"

I had intended to mention at the conclusion of my remarks the other morning two additional amendments which are in the course of preparation. The first is one which has been jointly recommended by the Association of Reserve City Bankers, the Federal Advisory Council and representatives of the various bank holding companies. It would provide an appropriate tax exemption, patterned upon the exemption of a similar type enacted in connection with the Public Utility Holding Company Act of 1935, to protect against the consequences of the statutory order of divestiture of nonbanking securities by all holding companies subject to S. 829. The language of such an exemption is now under study by the Treasury Department and the Bureau of the Budget. The Board, while favoring this amendment, did not want formally to present it to the Committee until it has been considered and approved by those agencies.

The second is one which has been proposed by the Treasury Department, and likewise approved by the Board. It would extend the definition of a bank holding company to include any company which owns 15 per cent or more of the voting shares of <u>one</u> bank, provided that bank has one or more branches. Such a provision seems to be entirely consistent with the underlying aim of S. 829, which is to bring all holding companies under regulation which control two or more banking offices.

I likewise forgot to hand to the reporter a copy of the resolution adopted by the Federal Advisory Council, reference to which was made during the course of my testimony. I enclose a copy of the resolution in the hope that it, too, will be made a part of the formal record.

Again thanking you and the members of your Committee for the opportunity of presenting the Board's views in support of S. 829, I remain

Sincerely yours,

M. S. Eccles,
Chairman.

Enclosure

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FEDERAL ADVISORY COUNCIL

R E S O L U T I O N

The Council for the past few years has at almost every meeting discussed the holding company situation, the inadequacies of existing legislation, and proposals for additional legislation in connection with it.

(1) The Council believes that holding company legislation should be enacted at this time. Experience has shown that the present legislation is inadequate and that additional legislation is urgently necessary.

(2) It approves the general approach to the holding company problem embodied in Senate Bill 829.

(3) It believes Senate Bill 829 should be amended:

(a) By adding to the declaration of policy and the standards for Federal Reserve Board, Comptroller of the Currency, and Federal Deposit Insurance Corporation action a more definite statement of objectives and standards. (A memorandum is attached which was the subject of discussion between the Board of Governors and the Federal Advisory Council which indicates the type of amendments in this regard which the Council believes necessary)

(b) By granting tax exemption to such holding companies as are required to divest themselves of non-banking assets. Simple justice requires that such tax exemption should be granted, and a precedent exists for it in the utility holding company legislation.

(c) By requiring a larger percentage than 10 per cent of the ownership of stock in two or more banks in order to create an automatic holding company relationship.

(d) By providing that incidental ownership of bank stocks in fiduciary capacities such as executor, trustee under a will, etc., should not create an automatic holding company relationship.

The Council urges the Board to submit amendments in accordance with these suggestions and to press for the enactment of the bill as so amended.

May 20, 1947.

MEMORANDUM

1. To reach and regulate any banking operation which, functioning in an area or with a structure larger than that permitted to independent banks, can or does, through the medium of concentrated control, jeopardize independent competitive banking at local or regional levels or place independent banks under the particular circumstances at a competitive disadvantage;

2. To confine the size and expanse of any such banking operations, regardless of its competitive or other aspects, within limits consistent with adequate and sound banking; and

3. To control the magnitude and expanse of any such banking operation, regardless of all other considerations, to the end that, in the event of adverse general economic conditions, such an operation will not be subjected to an inordinate pressure arising from unwieldiness due solely to mere size and expanse which, in turn, may put an inordinate pressure on the nation's banking structure.