FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 69-48
February 26, 1969

STATEMENT OF PRINCIPLES
BY THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WITH RESPECT TO
AMENDMENTS TO THE BANK HOLDING COMPANY ACT

To All Banks and Others Concerned
in the Eleventh Federal Reserve District:

There is attached a copy of a press release dated February 20, 1969, of the Board of Governors of the Federal Reserve System releasing a statement of principles with respect to amendments to the Bank Holding Company Act.

Additional copies of this Circular Letter and attached material may be obtained from the Bank Examination Department of this Reserve Bank.

Yours very truly,

P. E. Coldwell

President

Enclosures (2)

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FEDERAL RESERVE

press release

For immediate release. February 20, 1969.

The Board of Governors of the Federal Reserve System today released the attached statement of principles with respect to amendments to the Bank Holding Company Act.

All members of the Board joined in the statement, with two exceptions. Governor Brimmer was in agreement with the statement except as to one point, and an expression of his views on that point is attached. Governor Robertson did not join in the statement, and an expression of his views is also attached.

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STATEMENT OF PRINCIPLES
BY THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WITH RESPECT TO
AMENDMENTS TO THE BANK HOLDING COMPANY ACT

For several months the Board of Governors has been engaged in an intensive study of the problems presented by the recent trend in the formation of one-bank holding companies. The Board's deliberations have led it to adopt the following statement of principles with respect to possible amendments to the Bank Holding Company Act of 1956:

1. The Board believes that it is essential that one-bank holding companies be included within the purview of the Act.
2. The Board considers that under present circumstances the law should not permit a bank to become a part of a conglomerate organization. The unique characteristics of banks led the Congress in 1933 to separate banking from non-banking businesses, and in 1956 to reinforce that policy by limiting the activities of multibank holding companies to the management and control of banks and closely related activities. The Board believes that this separation should be maintained.

   It also believes, however, that, consistent with continued growth and development of a dynamic and increasingly complex economy, banks should be granted greater freedom to innovate new services and procedures, either directly, or through wholly-owned subsidiaries, or through affiliates in a holding company system, subject to administrative approval of entry and acquisitions to prevent activities inconsistent with the purpose of the Act.

3. Certain kinds of activities in holding company systems are in the public interest if accompanied by proper safeguards against perverse consequences. In determining whether a particular activity by bank holding company organizations is consistent with the public interest, consideration must be given to whether the benefits of such affiliation outweigh the potential dangers at which the separation of banking from nonbanking businesses has been directed. Such benefits would include greater convenience to the public, increased competition, and gains in efficiency for the economy generally as well as for the holding company organization. The potential dangers which might result from bank affiliation with nonbanking businesses are undue concentration of resources, decreased competition, conflicts of interest leading to less equality in the availability of credit, and dangers to the soundness of the nation's banking business.
4. The Board considers that one-bank holding companies and multibank holding companies should be afforded equal treatment under the law with respect to bank and nonbank acquisitions or approvals of de novo entry.
5. Bank holding companies should be allowed to enter certain nonbanking areas of activity, specified in statute or agency regulation, which would facilitate broader services for the public. Determinations by the appropriate banking agency would involve an evaluation of the benefits and dangers of

such entry. Unless otherwise provided by law, entry by acquisition, purchase of assets, merger, consolidation, or otherwise should be on the basis of considerations similar to the competitive and banking factors contained in the present Act.[1/]

6. The Board believes that it would be most effective for one agency (preferably the Board) to continue to administer the Bank Holding Company Act with respect to the holding companies themselves and with respect to the approval of acquisitions by the holding companies. Just as it believes the present system of a single agency determining the approval of new acquisitions by holding companies is proper, the Board believes that the acquisition of subsidiaries by individual banks should be dispersed among the three bank regulatory agencies.

7. Alternatively, and less desirably, if the Bank Holding Company Act were to be amended so that administrative authority over bank holding companies would be dispersed among the three agencies which now share in the regulation of banks, dispersion

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1/ Because of the risk of undue concentration of resources, an applicant proposing an acquisition involving a relatively large amount of nonbank assets would ordinarily bear a greater burden of proving that the acquisition was not contrary to the public interest.

Any expansion of bank holding company activities is predicated on the assumption that the economy generally will also benefit from the ability of such institutions to operate more efficiently in performing certain functions. However, it should be recognized that entry into new activities particularly those that are financially related--whether de novo or by acquisition--raises the question of the effect on competition between bank and nonbank institutions. Preserving the viability of such competition may be of overriding importance. The probability of anticompetitive consequences appears greater in acquisitions of existing concerns than in de novo entry.

might occur in the following manner:

(a) Vest authority over multibank holding company acquisitions of banks and of nonbanking activities in the Board.

(b) Disperse authority over one-bank holding companies in the three agencies with a requirement that regulations be jointly promulgated as to permitted nonbank lines of activity and containing guidelines as to acquisitions and mergers which because of size, or market, or related activities would be presumed to be opposed to the public interest. These regulations would also be applicable to nonbank acquisitions by multibank holding companies.

8. Although one-bank holding companies should generally be subject to the Act to the same extent as multibank holding companies, one-bank holding companies in existence before the recent trend to their formation should be given special consideration. This would mean a qualified exemption for those companies with respect to which the Congress or the agency determines that the combination of bank and nonbank assets does not give rise to any significant extent to the evils at which the Act is directed.[2/]

2/ There are various possible forms such an exemption might take: (1) exempting one-bank holding companies with relatively small bank and nonbank assets; (2) exempting one-bank holding companies in existence before the recent trend began (generally accepted as July 1, 1968) as long as they conduct no activities other than those conducted on the cut-off date and do not acquire (by purchase of assets, merger, consolidation, or otherwise) any interest in any other enterprise; (3) exempting such companies irrespective of their activities as long as they make no acquisitions; and (4) exempting such companies irrespective of their activities or acquisitions but require agency approval of any acquisition.

NOTE: This statement of principles is directed to the major issues involved in bringing one-bank holding companies within the coverage of the Bank Holding Company Act. Other amendments to the Act also merit favorable action by Congress. Among these are amendments (1) to bring partnerships within the coverage of the Act; (2) to broaden the Board's authority to determine that a company owns or controls a bank; (3) to give the Board jurisdiction over mergers where the resulting bank is a subsidiary of a multibank holding company; (4) to prohibit a bank from voting bank stock held in trust unless it has voting instructions from the beneficiary; and (5) prohibit tie-in arrangements.

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STATEMENT OF VIEWS OF GOVERNOR ANDREW F. BRIMMER

Governor Brimmer is in agreement with all elements of the Board's statement of principles regarding bank holding companies except for Item 7 regarding dispersal of authority among the three Federal bank regulatory agencies. He believes as a matter of principle that the administrative authority under the Bank Holding Company Act should be vested in a single agency.

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STATEMENT OF VIEWS OF GOVERNOR J. L. ROBERTSON

Governor Robertson did not join in this statement. His views on the major issues involved are: (1) one-bank holding companies should be brought within the coverage of the Bank Holding Company Act without a "grandfather clause" (although small one-bank holding companies might be given special consideration); and (2) some expansion of the powers of banks through subsidiary corporations or through collateral affiliates in a holding company system is justified; but (3) the most important consideration is that the administration of the Holding Company Act should be vested in one Federal agency to assure uniformity in its application, which is essential from the standpoints of the banking community, the Government, and the public.

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