Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, October 29, 1952. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Evans
Mr. Vardaman
Mr. Mills
Mr. Robertson

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Sloan, Director, Division of Examinations
Mr. Solomon, Assistant General Counsel
Mr. Hackley, Assistant General Counsel
Mr. Chase, Assistant Solicitor
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Cherry, Legislative Counsel

This meeting was called for the purpose of considering the position which the Board should take with regard to bank holding company legislation.

Chairman Martin first called upon Governor Evans, who expressed the belief that prospects for a full consideration by the Congress of holding company legislation were substantially better at present than in the early part of this year when Chairman Spence, of the House Banking and Currency Committee, introduced Bill H. R. 6504, and the Board advised him of its views in Chairman Martin's letter of April 11, 1952. At that time, Governor Evans said, it appeared that if any legislation were to be

passed it would have to be of such a nature that it could be enacted without undue delay but the public statements of the Chairmen of both Banking and Currency Committees since that time indicating their interest in adequate regulatory legislation, along with the active interest displayed by the Independent Bankers Association and, to a lesser extent, the American Bankers Association, led him to feel that the climate was now more favorable for the passage of legislation of a more comprehensive character. In the circumstances, Governor Evans suggested that the Board re-examine carefully the positions which it had taken in the past, not only last spring but previous to that time, in an effort to determine exactly what type of legislation it would consider most satisfactory and what it should recommend if called upon by Congressional committees.

Governor Evans went on to say that he would prefer a bill comparable to Bill S. 2318, introduced by Senator Robertson in 1949, since he believed that a bill of that type would be comprehensive enough in its definitions to cover all existing holding company situations and any other situations which might arise in the future. He also felt that such a piece of legislation, which would provide for administrative sanctions vested in a single agency designated by the Congress, with administrative hearings subject to judicial review, would provide a more workable enforcement mechanism than legislation like the Spence bill, which would provide only for criminal penalties upon reference of violations to the Department of Justice for prosecution.

Governor Evans suggested that the Board, in considering what type of legislation it preferred, should give thought to the basic purposes of the holding company device and the practices involved in the use of that device which seemed to call for regulation, especially the undue concentration of banking interests in a particular area in the hands of a single group. He also viewed the holding company as a possible means of evading State laws prohibiting or limiting branch banking and felt that any legislation should be broad enough to insure that the wishes of the respective State legislatures, as suggested in their statutes regulating branch banking, were respected. Governor Evans believed that the designated administering agency would encounter no great difficulty due to evasive practices on the part of the holding companies if the governing legislation was clear and precise, and thought that the administering agency could best deal with such problems as might arise if the legislation contained provisions for administrative sanctions which were adequate to effect prompt correction of any violations which might come to light.

Following a general discussion of the differences in definitions and enforcement provisions as between Bill S. 2318, Bill S. 3549, which was introduced in 1950 by Senator Robertson as a substitute for Bill S. 2318, and the bill introduced by Representative Spence this year, Chairman Martin called upon Governor Robertson, who commented on a meeting in his office

in August of this year which was attended by representatives of the Independent Bankers Association and the American Bankers Association and a spokesman for the holding companies. At that time, Governor Robertson said, he offered to draft, with the assistance of the Board's staff, a bill which would serve as a basis for critical review by the groups represented so that the differences in their thinking might be related to a particular piece of legislation. It was his thought that copies of this bill, which had now been drafted, should be transmitted to the Senate and House Banking and Currency Committees with a letter to the chairman of each committee setting forth the circumstances which had given rise to the draft and stating that copies thereof also were being sent to those who attended the meeting in August with the suggestion that any comments be forwarded direct to the Banking and Currency Committees. In this manner, he thought, the Board could assume the role of adviser to the Congressional committees rather than an advocate of specific legislation, and could leave to the committees the job of harmonizing the different points of view.

Referring to the draft bill which had been prepared, Governor Robertson said he considered it to be comprehensive in scope since a review by the staff had indicated that it would cover every holding company affiliate of any consequence in the country. He also felt that it would provide reasonable safeguards against evasion. He did not think that it would be desirable for the Congress to pass legislation in this field which would

delegate to any supervisory agency substantial discretion as to enforcement, and the draft bill, therefore, would provide for a type of enforcement program under which major reliance would be placed upon criminal penalties upon reference of violations to the Department of Justice.

It was Governor Robertson's opinion that there were only two major problems in the holding company area which needed to be regulated by legislation, first, the acquisition of bank stocks by bank holding companies leading to the control or domination of additional banks, thus making possible the concentration of a large portion of the banking facilities in a particular area under single control and management, and, second, the combination under single control of both banks and nonbanking enterprises. The draft bill, he said, would deal summarily with the second problem by providing that bank holding companies would be required to divest themselves of their interests in nonbanking enterprises, with only a few minor exceptions. Regarding the first problem, the bill would provide that the administering agency could permit no bank stock acquisitions by a holding company in a State where such acquisitions were prohibited by State law, while if a State had no such legislation, the administering agency could grant or refuse approval of the acquisition of additional bank stocks in its discretion. He explained that the draft bill would not attempt to effect a tie-in with State banking laws relating to branch banking on the theory that if a State had no legislation relating to the acquisition of

bank stocks by holding companies, it might be presumed to have no objection to that practice.

Following a discussion of some of the aspects of the bill drafted by Governor Robertson, Governor Evans said that he continued to feel that the more comprehensive definitions in Bill S. 2318, the broader approach to the holding company problem embodied in that bill, and the authority for administrative determinations as a part of the enforcement procedure made it a more satisfactory vehicle for dealing with the problems involved. He questioned whether a bill should not be broad enough to apply to chain banking, since this device might be used as an alternative to the holding company device, and whether consideration should not be given to the wishes of the various States regarding multiple office banking as indicated in their statutes covering branch banking.

Chairman Martin then pointed out that the adoption by the Board of a position along the lines of that suggested by Governor Evans would represent a reversal of the position which had been placed in the record by his letter to Representative Spence last April. He went on to say that the Board should adopt a position which in its judgement would constitute the soundest approach to the holding company problem and that, in view of the differences of opinion expressed at this meeting, it appeared that there should be additional discussion before any decisions were reached. In the circumstances, he suggested that copies of his letter to Representative Spence and the bill

drafted by Governor Robertson be sent to each member of the Board for study with a view to further consideration of the matter at a subsequent meeting of the Board.

This suggestion was approved unanimously.

At this point all of the members of the staff except Messrs. Carpenter, Sherman, and Kenyon withdrew and the following additional action was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on October 28, 1952, were approved unanimously.

Secretary.