

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6641

June 25, 1930.

SUBJECT: Effect of Consolidation on Clayton Act Permits.

Dear Sir:

In a ruling published on page 28 of the Federal Reserve Bulletin for January, 1925, the Federal Reserve Board ruled with reference to consolidations of banks covered by Clayton Act permits as follows:

"The Board holds that in any case where two or more banks consolidate under a statute, either Federal or State, which vests in the consolidated institution all the rights, franchises, or interests of the consolidating banks, the consolidated institution would, as a matter of law, have the right to the service of any director of any of the consolidating banks; in other words, that a director who is serving a bank by the permission of the Federal Reserve Board may, after his bank consolidates with another, continue to serve the consolidated institution if the statute under which the merger was effected gives to this institution all the rights, franchises, and interests of the constituent banks. The Board rules, therefore, that in such cases it will not require the director affected to make application to the Board for a new permit, but the director will be permitted, without any formality, to continue to serve the consolidated institution together with the other banks which he was serving before the consolidation took place."

The Board's ruling further provided, however, that in every such case the Federal Reserve Agent should consider and report to the Board with recommendation whether or not the situation existing as a result of the consolidation of the banks involved has so affected the question of competition between the banks upon which the director was serving as to make advisable the revocation of the permit formerly issued. When this ruling was issued the question whether the Federal Reserve Board should issue a permit

covering interlocking bank directorates under the provisions of the Clayton Act depended primarily on the question whether the banks involved were in substantial competition. Since this ruling was published, however, the Clayton Act has been amended so as to provide that such a permit may be issued if in the Board's judgment it is not incompatible with the public interest and may be revoked whenever the public interest requires its revocation. In view of this amendment, a Federal reserve agent when reporting to the Board whether or not a permit should be revoked on account of a consolidation, should consider, in addition to the question whether competition between the banks involved has been affected by the consolidation, whether in view of all the circumstances involved, the public interest requires the revocation of a permit. In this connection, particular consideration should be given to whether the consolidation will result in any restriction of credit or stifling of competition between the banks involved.

By Order of the Federal Reserve Board.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO ALL FEDERAL RESERVE AGENTS.