

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-7426

May 1, 1933.

SUBJECT: Proposed Change in Procedure re  
Violations of the Clayton Act.

Dear Sir:

In the Board's letter of May 28, 1931 (X-6901), a procedure was suggested to be followed in cases where apparent violations of the Clayton Antitrust Act were shown by reports of examination of national banks. It was contemplated that in each such case the Board would write to the person involved, advising him of the situation and forwarding him the necessary forms with the request that he execute them and send them to the Federal Reserve Agent.

On further consideration, it has been decided to alter this procedure so that the Federal Reserve Agent will conduct the correspondence with the director, officer or employee in all cases of apparent violations of that Act.

In the future, therefore, when apparent violations are shown by reports of examination, or are discovered in other ways, the Federal Reserve Agent should investigate the situation and advise the person involved that he must bring his service within the provisions of the Clayton Act by obtaining a permit from the Federal Reserve Board covering such service or by severing the connections which are contrary to the provisions of that Act. If in any case the Federal Reserve Agent feels

that he is not prepared to recommend the approval of an application after a preliminary investigation, there will be no objection to his communicating his views to the person involved and explaining the nature of the violation being committed and the steps necessary to avoid further violations. If this procedure be followed, it will probably obviate the filing of applications in most cases in which the Agent is not prepared to recommend approval. In each case referred to in this paragraph, the Board desires that the Federal Reserve Agent advise it promptly of the action taken.

In making the investigation suggested above, as well as in other investigations preliminary to a recommendation in connection with an application under the provisions of the Clayton Antitrust Act, the Board will expect the Federal Reserve Agent to consult with the Chief National Bank Examiner or the State banking authorities, to inspect the reports of examination of the bank or banks which the applicant is already serving, to consider any other information in the possession of or available to the Federal reserve bank, and to advise the Federal Reserve Board as to:

(a) The condition and management of the bank or banks with which the applicant is already associated and the extent of his responsibility therefor;

(b) Whether the applicant discharges the duties and responsibilities of his office by attending directors' meetings or otherwise;

(c) Whether the applicant has abused the credit facilities of the bank or banks he is already serving --- e.g., whether the examiners have criticized loans to the

applicant, his family or his interests as being excessive or unjustified for any other reason;

(d) Whether the applicant's influence upon the banks involved in his application is apt to be helpful or harmful to such banks; and

(e) Any other factors having a bearing upon the desirability of the applicant as an officer, director or employee of each of the banks involved in his application, and upon the desirability of permitting him to serve all of such banks at the same time.

In this connection you are advised that, unless other facts appear which in the judgment of the Board render it incompatible with the public interest, the Board ordinarily will take favorable action on the application if it appears to the satisfaction of the Board, on the basis of the facts presented by the applicant, the banks involved, and the Federal reserve agent, (a) that such banks are not in substantial competition, or (b) that the applicant's service as director, officer or employee of such banks is not likely to result in a restriction of credit or a substantial lessening of competition, or (c) that his services will add needed strength to the management of such banks, will be beneficial to the community or the patrons of such banks, or will otherwise be in the public interest.

In view of the fact that Section 8 of the Clayton Antitrust Act forbids interlocking relationships between banks of certain classes except in cases where the Federal Reserve Board finds specific interlocking relationships not incompatible with the public interest and grants permits therefor, the burden must rest upon each applicant for such a permit, and

upon the banks involved, to show to the satisfaction of the Board that it would be not incompatible with the public interest to permit him to serve the banks involved.

The Board suggests that each Federal Reserve Agent adopt the practice of making a review during the course of each year of the outstanding Clayton Act permits issued to applicants in his district; and of submitting to the Board his recommendation in each case in which in his opinion the public interest requires the revocation of a permit effective either immediately or at the time of the next annual election of directors, together with his recommendation in each case in which he feels that there is ground for doubt under the Board's instructions as to the action which should be taken.

Very truly yours,

Chester Morrill,  
Secretary.

TO ALL FEDERAL RESERVE AGENTS.