

X-7543

(INTERPRETATION OF BANKING ACT OF 1933)

(Copies to be sent to all Federal Reserve Banks)

August 8, 1933.

Mr. C. S. Young,
Assistant Federal Reserve Agent,
Federal Reserve Bank of Chicago,
Chicago, Illinois.

Dear Mr. Young:

Receipt is acknowledged of your letter of July 29, 1933, in which you advise the Board that on July 31, 1933, you intend to commence an examination of the _____ State Bank, _____, _____, a member bank of the Federal Reserve System. You state that the _____ State Bank is owned by the _____ Corporation, which also owns 38 other banks, and that the 38 other banks include 23 State nonmember banks and eight national banks in the 7th District in _____, and 3 State banks and 4 national banks in the 9th District in _____. Apparently, it is your opinion that you are required to examine the holding company affiliate; that the examination of the organizations in the group should be confined to the _____ State Bank and its holding company affiliate; and that the requisite information with respect to the 38 other banks owned by the holding company affiliate may be obtained from reports of such banks in the files of the various supervising authorities of these banks.

Section 9 of the Federal Reserve Act, as amended by section 5(c) of the Banking Act of 1933, provides that "In connection with examinations of State member banks, examiners selected or approved by the Federal

Reserve Board shall make such examinations of the affairs of all affiliates of such banks as shall be necessary to disclose fully the relations between such banks and their affiliates and the effect of such relations upon the affairs of such bank." Although you have furnished the Board with no detailed information as to the ownership or control by the _____ Corporation of the banks in question, it would appear that the national and State banks which are subsidiaries of the _____ Corporation are affiliates of the _____ State Bank within the meaning of section 2, subparagraph (b) subdivision (2) of the Banking Act of 1933, and, therefore, that the Federal reserve bank examiners are required to make such examinations of each such affiliate of the member bank as may be necessary to disclose fully the relations between the member bank and its affiliates, and the effect of such relations upon the affairs of the member bank. Since the nature of the examination which may be necessary to disclose the requisite information will be dependent to a large extent upon the facts of each particular case, the Board is of the opinion that an examination restricted to a review of the reports of the supervising authorities may not meet the requirements of the statute in every case, and accordingly, that the affiliates of the _____ State Bank should be subjected to a more detailed examination if it should appear from the facts developed in the course of examination of the member bank or any of its affiliates that such additional examination should be made. In any such case, the

-3-

Board is of the opinion that the extent and form of examination of any affiliate of the member bank should rest in the sound discretion of the examiners duly authorized to examine the member bank.

It is the opinion of the Board that the word "affiliate", as used in that provision of section 9 of the Federal Reserve Act, as amended, which requires examination of each affiliate of a State member bank, may not be construed as including a "holding company affiliate", and that a holding company affiliate of a State member bank (other than a member bank) is not subject to examination unless and until it enters into an agreement to be subject to all the applicable provisions of section 5144 of the Revised Statutes, as amended, and makes an application to the Board for a voting permit under the authority of section 5144. The _____
_____ Corporation has not filed with the Board any such agreement and application, and accordingly, the law does not require an examination of this holding company affiliate by Federal reserve bank examiners at this time.

Very truly yours,

Chester Morrill,
Secretary.