

# FEDERAL RESERVE BOARD

WASHINGTON

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ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-7763

January 20, 1934.

Dear Sir:

As you know, the Banking Act of 1933 provides with respect to applications of holding company affiliates for voting permits that the Board may, in its discretion, grant or withhold such permits as the public interest may require and that in acting upon any application for such a permit the Board "shall consider the financial condition of the applicant, the general character of its management and the probable effect of the granting of such permit upon the affairs of such bank."

Consideration of information submitted with applications for voting permits heretofore received has disclosed that in some cases the applications were inaccurate, incomplete, and unsatisfactory. In certain instances reports of examinations of subsidiary banks and affiliated institutions were not current or were insufficient in other respects, particularly in regard to information concerning management, intercompany and interbank relations, and appraisal and classification of assets. In addition, the reports of examination and statements of the banks and other corporations were of widely varying dates. For these and other reasons, the Board concluded that it should confine its action for the time being to limited permits for certain specified purposes and that it should

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defer action upon the question whether unlimited permits to vote for all purposes should be granted until a more thorough study could be made of the applications and the information in connection therewith.

In this connection the Banking Act of 1933 also provides that every "holding company affiliate" in making application for a permit shall agree to receive, on dates identical with those fixed for the examination of banks with which it is affiliated, examiners duly authorized to examine such banks who shall make such examinations of such holding company affiliate as shall be necessary to disclose fully the relations between such banks and such holding company affiliate and the effect of such relations upon the affairs of such banks, such examinations to be at the expense of the holding company affiliate so examined; that the reports of such examiners shall contain such information as shall be necessary to disclose fully the relations between such holding company affiliate and such banks and the effect of such relations upon the affairs of such banks; and that such examiners may examine each bank owned or controlled by the holding company affiliate, both individually and in conjunction with other banks owned or controlled by such holding company affiliate. The act also 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

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such relations upon the affairs of such banks.

In the circumstances, the Board feels that in the development of your plans for examinations of all State member banks in your district, provision should be made as far as possible for simultaneous examinations of "holding company affiliates" and their subsidiary member banks and the affiliates of such member banks, in order to carry out the requirements of the Banking Act of 1933 and to enable the Board to take final action upon pending applications for voting permits. For this purpose it will, of course, be necessary to make appropriate arrangements with the chief national bank examiners and State supervisory authorities in each district. This matter has been discussed with the office of the Comptroller of the Currency and he will arrange to have the respective chief national bank examiners cooperate with you to the fullest extent. If it is not practicable to make examinations simultaneously of all banks and their affiliates in any very large group in your district, the principal banks of such group, together with the affiliates whose relations are most important, should be examined simultaneously and the remaining institutions covered as soon as possible thereafter, their records being reviewed in order to obtain information on a comparable basis and to make allowances for intercompany transactions which may have occurred between the different dates of examinations.

In connection with these examinations, the Board desires that certain specific information be obtained concerning all the units of a group and an outline of the points to be covered in this respect will be prepared and sent you as soon as possible. For these reasons, it is

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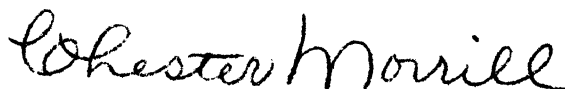
suggested that for the present your examiners give their first attention to the banks which are not affiliated with holding companies and that you advise the State supervisory authorities and the chief national bank examiners accordingly.

It is probable that the State and national bank examiners have examined some of the banks in affiliated groups during the current year or late in 1933 and, therefore, they do not contemplate re-examination of such banks prior to July 1, 1934. However, in such cases, for the reasons which have been stated, it would be desirable if at all possible to re-examine any such banks in accordance with the general plan which has been outlined in this letter.

The examinations made of national banks and State member banks under this program can, of course, serve as a basis for the certifications by the Comptroller of the Currency and the Federal Reserve Board in connection with applications for Class A stock in the Federal Deposit Insurance Corporation. Such certifications, however, must be made prior to July 1, 1934, and the work in connection with voting permits should not prevent the completion of the program in connection with the certifications for the insurance fund.

If there are any details of this procedure which you wish to discuss further, it is suggested that you communicate with Mr. L. H. Paulger, Chief of the Board's Division of Examinations.

Very truly yours,



Chester Morrill,  
Secretary.