



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON  
April 27, 1936

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

SUBJECT: Applicability of Public Utility Holding  
Company Act of 1935 to banks.

Dear Sir:

There is inclosed a copy of a letter dated April 7, 1936, addressed to the Chairman of the Board by the Chairman of the Securities and Exchange Commission, with reference to the applicability of the Public Utility Holding Company Act of 1935 to banks, as well as a copy of the letter referred to therein and a copy of the Commission's Rule 3A3-1 and of its Form U-3A3-1.

In view of the fact that the matter has been brought to the attention of a number of the largest banks in the country and that a statement regarding it has been released to the press, the office of the Comptroller of the Currency has not thought it desirable to circularize the national banks regarding the matter, and it is not suggested that you should circularize the State member banks in your district. However, the matter is being brought to your attention in order that you may be in a position to answer any questions which may arise in connection with member banks in your district.

Very truly yours,

*Chester Morrill*  
Chester Morrill,  
Secretary.

Inclosures.

COPY  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON

Office of the Chairman

April 7, 1936

Mr. Marriner S. Eccles, Chairman  
Board of Governors of the Federal  
Reserve System  
Washington, D. C.

Dear Mr. Eccles:

It has come to my attention that until just recently two of the larger banks which hold voting securities of public utility companies in one capacity or another were unaware of the fact that they may be subject to the provisions of the Public Utility Holding Company Act of 1935 and were equally unaware of the rules adopted by this Commission granting them exemptions in connection with certain types of holdings. We have felt that it would be unfortunate if any banks should inadvertently come into conflict with the statutory provisions so I am sending the enclosed letter to the hundred largest banks of the country as listed in the American Banker of January 21, 1936, and to mutual savings banks having deposits of \$50,000,000 or more, as listed in the same publication. The letter has also been released to the press.

I hope that, directly and indirectly, this letter will result in a general understanding of the situation among the banks of the country. It is obvious, however, that there may be many smaller banks which own, control, or hold substantial blocks of voting securities in utility or holding companies. Accordingly, the Commission will greatly appreciate anything you can do to promote a more general understanding of the situation.

Very truly yours,

(Signed) James M. Landis

James M. Landis  
Chairman

Encl.

Holding Company Act  
Rule 3A3-1  
Form U-343-1

Copies to:

J. F. T. O'Connor  
Comptroller of the Currency  
Robert V. Fleming, President  
American Bankers Association

COPY

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON

Office of the Chairman

Gentlemen:

It has come to our attention that a number of banks are apparently unaware of the fact that, as a result of acquiring public utility securities in liquidation of debts or holding them in trust capacities, or otherwise, such banks may constitute "holding companies" as defined in the Public Utility Holding Company Act of 1935.

Section 2(a)(7) of the Act defines as a "holding company" any company which owns, controls, or holds with power to vote, 10% or more of the outstanding voting securities of a public utility company. A public utility company is defined in Section 2(a)(5) as an electric or gas utility company, and the latter are further defined in paragraphs (3) and (4) of Section 2(a).

Section 4(a) of the Act requires all holding companies which use the mails or interstate commerce in any of the ways therein specified, to register with this Commission, except that the Commission is directed by Section 3(a) to exempt certain classes of holding companies. Acting pursuant to this authority, the Commission has promulgated Rule 3A3-1 exempting certain banks from the provisions of the Act applicable to them as holding companies, subject to the condition that they file quarterly statements with this Commission on Form U-3A3-1. The first of these statements is due not later than April 30, 1936.

Enclosed you will find copies of the Act and also of the Rule and Form mentioned above.

Very truly yours,

(Signed) James M. Landis

James M. Landis  
Chairman

Enclosures.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON

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Rule 3A3-1, as promulgated November 25, 1935 (Release No. 24)  
and amended March 18, 1936 (Release No. 115)

Rule 3A3-1. Exemption of certain banks. (a) Any bank as defined in paragraph (b) of this Rule shall, except insofar as specified in paragraphs (c) and (d) of this Rule, be exempt from any obligation, duty, or liability imposed by the Act upon such bank as a holding company, if such bank does not own, control, or hold with power to vote, 10% per cent or more of the voting securities of any public-utility or holding company other than

- (1) securities of which such bank is not the beneficial owner;
- (2) securities pledged as security for, or acquired in connection with the liquidation of, a debt resulting from a loan or other credit at any time in good faith extended by such bank either alone or in conjunction with other lenders;
- (3) securities acquired by such bank, under any plan of reorganization or otherwise, in satisfaction in whole or in part of any such debt or in exchange for such debt;
- (4) securities acquired by such bank in exchange for securities described in paragraphs (1), (2) and (3) above, as a result of any reorganization or recapitalization of the issuer of such securities.

(b) The term "bank" as used in this Rule shall mean (1) a banking institution organized under the laws of the United States, (2) a banking institution or trust company incorporated under the laws of any State or of the District of Columbia, which is primarily engaged in the commercial banking business or in the business of exercising fiduciary powers, or both, or (3) a receiver, conservator, or other liquidating agent of any of the foregoing in his capacity as such.

(c) Any bank exempted under paragraph (a) of this Rule shall, within thirty days after the last day of February, May, August and November in each year or such later date thereafter as the Commission may by order prescribe, file with the Commission a statement on Form U-3A3-1, as required by the instructions for said form, containing the information therein specified and such further information as the Commission may require; provided, however, that the statement for the quarter ending February 29, 1936, may be filed not later than April 30, 1936.

(d) No bank exempted by paragraph (a) of this Rule shall enter into or take any step in the performance of any service contract, as the term is used in Section 13(a), whereby such bank is given the exclusive right to render financial services to any associate company thereof which is a public-utility or holding company.

(e) In addition to its power to amend or rescind this Rule, the Commission by order, after notice and opportunity for hearing, may terminate, suspend, or modify the exemption provided by this Rule as to any bank, if

- (1) such bank shall fail to comply with any of the provisions of paragraphs (c) or (d) of this Rule, or
- (2) such bank shall evade, seek to evade, or be used to evade the provisions of the Act.