

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

X-9591

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 18, 1936.



Dear Sir:

With its letter of January 30, 1936, (X-9473), the Board inclosed copies of several letters and telegrams containing interpretations of various provisions of the agreement which accompanied the Board's letter of December 3, 1935, (X-9385), relating to the issuance of general voting permits. Inclosed herewith are copies of two additional letters of a similar nature.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,  
Secretary.

Inclosures.

TO ALL FEDERAL RESERVE AGENTS.

X-9591-a

February 5, 1936.

\_\_\_\_\_,  
\_\_\_\_\_,  
\_\_\_\_\_,

Dear Sir:

This refers to your letter of January 20, 1936, addressed to the Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, in which you make certain inquiries concerning the agreement which the Board requires holding company affiliates to execute as a condition to the issuance of general voting permits.

With reference to your first question, it is not the intent of the Board that such agreement shall deprive the holding company affiliate or its subsidiary banks of any rights which they may have to resort to any court or other tribunal of proper jurisdiction.

With reference to your second question, it must be noted that the execution of the agreement and the terms thereof have been prescribed by the Board in the discharge of responsibilities placed upon it by law and that any differences between the situation of banks which are subsidiaries of holding company affiliates and the situation of other banks necessarily arise from the enactment of the legislation by Congress relating specifically to holding company affiliates and their banking subsidiaries. However, it is intended that the Board shall act in accordance with sound principles of banking practice in enforcing requirements relating to subsidiary banks pursuant to the agreement

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prescribed. In view of its responsibilities under the holding company affiliate legislation, the Board could not be excused for a failure on its part to require holding company affiliates to cause their subsidiary banks to comply with sound principles of banking practice on the ground that other banks may not in all cases be required to do so. Moreover, the Board must be free to consider all of the facts and circumstances of each case and, in doing so, it cannot properly ignore the relationships between the particular bank and other members of the group. The Board, of course, does not feel that the mere fact that a bank is a subsidiary of a holding company affiliate justifies the imposition of arbitrary or unreasonable requirements relating to such bank and the Board has no intention to make or enforce such requirements in acting pursuant to the prescribed agreement.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,  
Secretary.

X-9591-b

April 4, 1936.

Mr. Frederic H. Curtiss,  
Federal Reserve Agent,  
Federal Reserve Bank of Boston,  
Boston, Massachusetts.

Dear Mr. Curtiss:

This refers to Mr. McRae's letters of January 2, 1936, and their inclosures, relating to voting permit applications of \_\_\_\_\_ and The National \_\_\_\_\_ Bank of \_\_\_\_\_, both of \_\_\_\_\_, \_\_\_\_\_. As you probably know, the matters referred to therein have since been discussed informally by representatives of the applicants and the Board.

\* \* \* \* \*

Both of the applicants object to the following provision of paragraph numbered 7 of the form of agreement accompanying the Board's letter of December 3, 1935, (X-9385):

"and that, except with the permission of the Board of Governors of the Federal Reserve System, it shall not cause or permit any change to be made in the general character of its business or investments."

In view of the restrictions and limitations imposed upon national banks by law, the Board feels that such a provision is not essential where the holding company affiliate is a national bank and that, accordingly, there is no objection to authorizing its omission in such a case. Hence, the Board hereby amends the authorization contained in its ANCILDALE telegram of \_\_\_\_\_, relating to The

National \_\_\_\_\_ Bank of \_\_\_\_\_, to provide that the above-mentioned paragraph shall read as follows in the agreement to be executed by such bank as a condition to the issuance of a general voting permit to it:

"That the management of the undersigned will be, and the undersigned will take such action within its power as may be necessary to cause the management of each of its subsidiaries to be, conducted under sound policies governing its financial and other operations, including statements issued relating thereto; that the undersigned will maintain a sound financial condition; and that its net capital and surplus funds shall be adequate in relation to the character and condition of its assets and to its liabilities and other corporate responsibilities."

The Board does not feel that it should authorize any modification of such paragraph in connection with the agreement to be executed by \_\_\_\_\_. In connection with the matters which it is required by law to consider in granting voting permits, the Board must consider the character of the holding company affiliate's business and investments, and the Board feels that it should provide requirements to assure that during the life of the voting permit the general character of the business and investments will not be changed in a way which might have an adverse effect on the condition of the holding company affiliate or its relationships with its subsidiary banks. However, the Board has no intention or desire to exercise detailed supervision over the investments of the applicant or to pass upon individual investments and it is felt that the pertinent provisions of the agreement which refer to a change in the "general character" of business or investments do not indicate such supervision is contemplated.

\_\_\_\_\_ states "To follow the regulations which you insist upon, we would have to mark up and down on our books, all securities every month". Paragraph numbered 1 of the standard form of agreement requires the elimination of losses and certain depreciation in securities by the applicant as soon as practicable and in any event within two years. However, when the particular eliminations described in paragraph numbered 1 have once been made, such paragraph does not require any further eliminations. Under paragraph numbered 7, the applicant's management must be conducted under sound policies governing its financial and other operations, including statements issued relating thereto. While the Board feels that in the public interest the books and published statements of a holding company affiliate should correctly reflect the value of its assets and the amount of its liabilities, this provision of the agreement contemplates only such adjustments in the books of the holding company affiliate as would not interfere with its normal operations, would be required by sound accounting practice, and would be necessary to prevent misrepresentation to shareholders and the public.

The National \_\_\_\_\_ Bank of \_\_\_\_\_ suggests a change of a perfecting nature in paragraph lettered (A) of the agreement to be executed by it. While it is not believed to be essential, the Board authorizes the substitution of the words "any of the undersigned's" for the words "the undersigned or by any of its" in such paragraph of the agreement to be executed by that applicant and amends the author-

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ization contained in its ANCILDALE telegram of \_\_\_\_\_, \_\_\_\_\_, accordingly.

The Board extends to \_\_\_\_\_, \_\_\_\_\_, the time within which you may issue to The National \_\_\_\_\_ Bank of \_\_\_\_\_ and \_\_\_\_\_ the general voting permits authorized in its ANCILDALE telegrams of \_\_\_\_\_, \_\_\_\_\_. Please advise applicants in accordance with this letter.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,  
Secretary.