

# Leach Criticizes Bank Regulator On Stock Rule

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WASHINGTON—The influential House Banking Committee chairman blasted a federal regulator for allegedly circumventing the law by permitting “in virtual secrecy” some large banks to hold stock in commercial companies.

Rep. James Leach (R., Iowa) said that the Office of the Comptroller of the Cur-

rency has “run amok” by revising the long-standing stock-ownership prohibition without guidance from Congress and the public.

“At issue is whether we have an independent financial sector serving commerce or one which becomes laden with conflicts of interest,” Mr. Leach wrote in a letter Friday to Comptroller John H. Hawke Jr. The Comptroller’s office, a unit of the Treasury Department, regulates nationally chartered banks.

Beginning in July, bank examiners from the Comptroller’s office gave verbal approval to three large national banks, allowing them to acquire and hold the stock of commercial companies. The three include Bank of America Corp.’s bank and Citigroup Inc.’s Citibank, people familiar with the matter said. A Bank of America spokesman declined comment; officials at

Citibank didn’t immediately return calls for comment. There was never any effort to keep it secret. We’re happy for this to be made public,” said Robert Garsson, an OCC spokesman.

In a 16-page letter responding to Mr. Leach, the regulator said the policy would only apply to a handful of large banks that take part in derivatives transactions. A total of seven banks, including Bank of America and Citibank, account for 95% of the value of derivatives contracts. The rationale is simple: Banks that engage in commercial-company stock derivative transactions must hedge the risk, and buying the stock of the company short-term is a common strategy to accomplish that.

“We’re not allowing banks to buy equity securities for investment or speculative purposes,” Mr. Garsson said. Though stock

ownership by financial institutions in commercial companies, such as auto or steel companies, was outlawed in 1933, the ban was modified to allow banks to set up separate securities affiliates that are permitted to buy such stocks. Last year’s legislation for financial-services modernization doesn’t change the law affecting stock purchases.

The big banks asked the Comptroller’s office to exempt derivative-related stock purchases to save money. Banks say it is cheaper for a bank to buy stock internally, rather than have it done through securities affiliates. The regulator can authorize some activities that are “incidental to banking.” However, Mr. Leach said, “A precept as large as allowing a national bank to own stock in commercial companies, which has been debated for decades in Congress, is not sanctioned by law.”

“The OCC’s recent actions represent a

significant public policy departure made in virtual secrecy,” Mr. Leach said. “It opens the door to much broader bank ownership and participation in commercial companies than authorized by law and allows banks to take advantage of implicit federal subsidies of bank capital costs.”

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