

CONFIDENTIAL

Memorandum of Conference of Representatives of the Bank of America, N.T. & S.A., and the Board of Governors in the Federal Reserve Building in Washington at 2:00 p.m. on Wednesday, April 13, and at 11:00 a.m. on Thursday, April 14, 1949.

In accordance with action taken by the Board, a conference was arranged in the Special Library on the above date for the purpose of obtaining from representatives of the Bank of America National Trust and Savings Association, information in connection with the applications of the bank to establish branches in Frankfort-am-Main, Bremen, and Hamburg, Germany. There were present at the conference Mr. Russell G. Smith, Executive Vice President of Bank of America; Mr. Roland Pierotti, Washington representative of the Bank of America; Messrs. Szymczak, Clayton, and Draper, members of the Board; and Messrs. Carpenter, Vest, Millard, Wilkes, Dembitz, and Grossman, members of the Board's staff.

Mr. Szymczak stated that the purpose of this conference was to get information from representatives of the Bank of America regarding its policies with respect to (1) expansion of branches in foreign countries, (2) types of business conducted and types of credits extended by the foreign branches, (3) experience with recently established branches, and (4) the need and prospective business of the three German branches for which applications had been filed.

In response to these questions and related questions asked by representatives of the Board during the conference, Mr. Smith made substantially the following statement:

It has seemed to us that, in general, the Bank of America has obtained a stature that carries with it certain responsibilities. In this particular period of history when America is a creditor nation and is attempting to assume leadership in certain fields of international affairs, it is only logical that American banks should attempt to implement national policy. We think that is done by the development of correspondent bank relationships, branches, etc., to an extent to be determined in each country. We have been asked several times what our plans are for expansion of our foreign business. We could not answer that then and I can not answer it now. Our policy depends largely on what the attitude of the Federal Reserve Board is toward the program. If the Board would indicate to us what we should do to implement national policy our plans would be made to fit into that in such degree as it was possible to do so.

We have had a branch in London for some twenty years and it has always been operated as an adjunct of the international banking department. After the war we were asked to look into

the Philippine situation and after doing so we decided to establish a branch there. We studied the internal organization and methods of operation of the British and American banks in the foreign field and we came to the conclusion that in the administration of our foreign business we would not attempt to develop a foreign banking department, as distinguished from our domestic banking business, with two sets of administrative officers and two managements with coordination at the top. We decided that there should be coordination all along the line. We have technical, personnel, branch supervision, and loan supervision, departments and we have put the foreign branches right into that administrative setup at the management level because the problems with respect to foreign branches reach management in the same way as do the problems of the domestic branches.

Our senior management consists of a chairman, the president, the vice-chairman, and five executive vice presidents. Each of the executive vice presidents has some particular field of the bank's activities. I have the international field. I am not the manager of the international banking department or manager of the foreign branches but I give the international aspects of the bank's business my primary attention. Participation in the general administration of the bank comes along with that. The manager of a branch in a foreign country is responsible to, and receives instructions from, the supervisor of branches. He supervises the branches from the stand point of operations. Personnel questions in the foreign branches are handled through the personnel officer of the bank. Branch manager loan limits are set by the senior management on recommendation of the loan supervision department. One officer in that department has one or more foreign branches assigned to him along with one or more domestic branches. However, we don't have one group of loan officers who supervise all loans in the foreign branches. One handles London, one handles the Far Eastern branches, and the third may handle the business which originates in the international banking department. These officers report to the vice president in charge of the Loan Supervision Department who is a member of the general finance committee. I have made this statement to demonstrate that the administration and control of foreign branches is in the same hands as the administration and control of the bank as a whole.

We expect to build the position of the Bank of America in the international field to a point where it will be comparable to the Bank's position in the domestic field. We feel we owe it to the State, to our Country, to our customers, and to the stockholders. That is part of the policy of implementing

a national program - a program of American industry, trade, and commerce taking a predominant position in the world. American banks should go along with that program as one instrumentality for accomplishing it. I do not mean by that that we think it is up to any banking institution to finance the reconstruction of Europe or the Philippines, the development of backward countries, or any of the other objectives of national policy, but rather that banking is one of the tools by which those things are done. For example, we had no plan to establish branches in Japan. We got into conversations at the War Department and someone asked why we should not help with the job that had to be done in Japan and Germany. We talked it over and decided we would provide the limited banking services they wanted in those countries if they would pay our expenses. In the case of Japan it was demonstrated that we did not have to ask any reimbursement but that we could make our own way.

When we got to Japan we found it was the policy to decentralize. We had discussions about Yokohama, Kobe, and Nagasaki, and we determined that we would establish branches in Yokohama and Kobe. However, the policy of decentralization has not moved as rapidly as planned, and we do only a nominal business in those places. Our business in Tokyo has been large in volume and quite profitable. The \$60 million cotton credit was initiated by us in the War Department. We drafted and submitted the first written plan, and it was only natural that when the thing developed we were part of it. We have handled over \$20 million of credit on imports of cotton and when the transaction is completed, we will have loaned \$10 million to the export-import agency out there. In addition we have issued a large volume of credit covering imports of other things. It has worked out very well.

We went into China because it seemed to us that Chinese trade has always been a matter of major importance to San Francisco and California. It was logical for us to be in Shanghai if we were to have a branch over there. The situation deteriorated, however, and there was a question whether we should or should not establish the branch. We finally received the necessary permits and were then in the position of having the permits but not the disposition to establish the branch. However, we came to the conclusion it would be better to commence operations and suspend them if necessary rather than to give up the permits which had been obtained with so much labor. We commenced operations under conditions which are like "carrying your office in your hat" and

are prepared to leave at any time and suspend operations. The branch hasn't done very much. I had a letter from the manager recently who said that if we could get the equivalent of \$5,000 in deposits we could pay expenses. That is because the only source of revenue that is open to us is day-to-day inter-bank loans on which the rate is equivalent to 20 1/2 per cent per annum so that, if we had \$5,000 in deposits, we would have \$10,000 in revenue.

I went to Siam in 1946 at the invitation of the Siamese Government and at the urging of our State Department. I first declined the invitation and went to Manila where the American Consul said that if I could find it convenient to accept the invitation, he thought it would be a desirable thing to do. The matter having been put that way I did not see how we could refuse. I went on to Siam, and it was apparent that they were extremely anxious to develop closer business relations between Siam and the United States. Before the war, tin and rubber, the important exports next to rice, went through Singapore and they were paid for in sterling. The authorities talked to me at some length about the desirability of having an American bank out there and establishing channels by which that trade would go direct. The American authorities were interested in it also and after talking with various people and after I came back, I talked with people here and came to the conclusion that there was a place for an American bank out there. So we made the application to the Board. While that application was pending, we were in a rather embarrassing spot because of the policy of the Siamese Government of allowing only one foreign bank from each foreign country. They agreed to hold a place for us, and we were in a position where we could not say whether we would or would not establish the branch. The permission has now been granted, and we are under way. We do not plan to get a building there or make any substantial investment. We have a rental arrangement for a building, and our investment there will be nominal.

In general, we do not contemplate making any investment in bank premises in any of our foreign branches at least until we have paid for them out of profits in the country and only then if it becomes necessary in order to have a place to live. Neither do we contemplate any large investment in capital. We were required to go to Manila with 250,000 pesos. That is represented by \$250,000 in U. S. currency in our vaults. That is in accordance with our policy that we will support the economy of the country to the extent that it provides the deposits. Our loans in the countries where we have branches have been in relation

to the deposits we have received. We have loans in Manila of about 50 per cent of deposits. In London over twenty years for occasional intervals and only for short times have we had any of our own money in the branch. At the moment we have \$176,000 which represents a temporary overdraft in the clearing account between the branch and the head office. Loans have always been made out of deposits. We have had a policy of maintaining a 50 per cent liquidity—50 per cent of deposits in cash, bank deposits, and call loans. If loans in London increased, that carries with it the right of the branch manager to overdraw his branch clearing account in order to make investments in cash and call loans to maintain liquidity.

The types of credit extended is different in the different branches. In London the major emphasis has been in the production of motion pictures. We have had long experience in that field in California. Loans are better in London than in California for the reason that we have a double guarantee—a guarantee of the completion of the picture and a guarantee of repayment of the loan. In addition, we finance a considerable amount of goods moving in commerce—imports from the United States, the Middle East, and the sterling area. There is a fairly good volume of import-export transactions. These are practically all on an acceptance basis or advances against shipping documents. We have practically no loans in connection with what you would call domestic transactions or real estate loans.

In Manila we do more nearly a general banking business combined with an import-export business. We have accounts with American concerns which are all secured. We have a small volume of personal loans largely to employees of American concerns and some security loans. We have a few loans to Philippine residents against the security of dollars, and deposits come mainly from American concerns or concerns that have an American origin.

In Shanghai we have no loans.

In Japan we have about \$3,000,000 in deposits from military personnel. We have a few odds and ends of loans to individuals which cover the purchase of automobiles or household equipment. We make loans when a man is transferred over here, and he wants to clean up his debts.

We have not and we do not contemplate using these branches as pipelines for the investment of our loanable

funds from the United States. We have no idea of putting any of our depositors' money at risk in the foreign branches, nor do we contemplate putting any substantial part of our capital at risk in bank premises, etc.

Some business will come to the branches because of our connections in the United States. (He discussed one or two cases as examples of this kind of business.)

I cannot answer your question as to our plans for expansion in the foreign field unless the Board answers my question as to the attitude of the Board toward the development of foreign bank business by American banks. Does the Board wish to see American banks develop their foreign business and if so, should it be in the form of general correspondent bank relationships, the establishment of foreign branches, the establishment of foreign banking corporations under Section 25 and 25a of the Federal Reserve Act, or through a system of representation abroad? Our plans would be made to fit the approved pattern. We are now groping around with the belief that we owe it to our stockholders, our customers, and to our country to do something. We asked for permission to establish a branch in Manila to see what the reaction would be. We have put a representative office in Paris to see what the feeling was. We have a representative in Italy because we have a large volume of Italian business, possibly the largest of any American bank.

I have discussed these policies with you with the utmost candor without holding anything back because I would like to invite the same kind of comments from you.

Mr. Giannini and I went to Italy in 1945. Our bank owns 99 per cent of the stock of the Bank of America de Italia. We visited with government officials, with our own people in the military government, the Embassy, and with Italian bankers. When we came back, I made some further studies and came to the conclusion that Italy was a workshop where they import raw materials and fabricate and export them. We believed we could develop a business with no more than a reasonable risk. We started out with modest credits to Italian banks to cover imports. We offered to open lines of credit to certain Italian banks to permit them to draw drafts up to 90 days. We first confined ourselves to cotton credits as the thing which they needed very badly. Their textile plants were in the best shape of any of their activities, and there was a tremendous demand for all sorts of textiles. Our operations have gradually extended. We found that in doing business with Italian banks we were doing business with

people who had a high degree of integrity and who desired to keep us in a safe position. We have simply loaned the Italians their own money. Banks in New York are critical of our having extended lines of credit in Italy. On balance we have only been lending them their own money which is a proper banking function and exactly what we do in any community when we take deposits and lend them.

We might have gone to Italy and said, "Here is a situation where, for perfectly obvious reasons, we will extend credit only to the Bank of America de Italia and not to any other bank," with the result that that bank would have a monopoly on the financing of imports to Italy. We did not do that but extended credit to banks in Rome, Naples and to all other major banks in Italy.

If I had to answer at this time the question whether we wish to establish a branch in Italy I would recommend against it. We do business with the large Italian banks and with some smaller ones. We have representatives there and are informed from day to day. However, I do not want to make a commitment that we would not want to establish a branch there.

(In answer to a question as to whether Mr. Smith's earlier comment about the establishment of Bank of America in the foreign field on a basis comparable to its position in the domestic field.) I do not mean to say that we seek a volume of deposits, etc. in the foreign field which would be equal to those in the domestic field. What I do mean is that we should have in the foreign field a volume of business, correspondent relationships, volume of deposits, and volume of transactions which would be comparable in size (in relation to the size of our bank) to the foreign business of other large American banks in relation to their size. Our international banking department should serve banks in Switzerland, India, Australia, and elsewhere in the same manner as other American banks serve their correspondents in these countries. The fact that they do business in New York and we are in California should not make any difference. We don't take second place to anyone in the world in so far as our ability to handle a transaction is concerned. We have personnel that is as experienced as any and, if necessary, I could go into detail and relate some particular instances in that connection. It has been an accepted idea that if you have foreign transactions you would go to New York to finance them. We don't like to see exports in San Francisco financed by New York lines of credit. We are out to get that business.

We are doing business with the world and are not confined to the Pacific area. You do not restrict the New York banks to the Atlantic basin. They ship sugar out of Manila, some of which goes to New York and some to San Francisco.

We would like to make plans as to the methods by which we would do our foreign banking business. What is the attitude of the Board toward the organization of a foreign banking corporation under Sec. 25 of the Federal Reserve Act? That is a case where we would be the owner of an American corporation engaged in foreign banking. If the answer is in the affirmative, what would be the attitude of the Board toward the establishment by that corporation of branch offices? What would be the attitude toward making investments in foreign banking concerns, that is, becoming a minority shareholder in a foreign bank. What is the attitude of the Board toward the establishment of foreign branches. In that connection, there seemed to be some question in the discussions of the applications that have been filed and in the time that has elapsed between the filing of the applications and action of the Board as to the desirability of branches. We have had all sorts of interesting things to consider. We have been invited by various interests to join with them in combination with Swiss, Italian, French, British, and other interests. We have held them at arms length because we do not want to start negotiations until we know what our policies can be. We would expand our foreign business to the extent that we find it to our advantage to do so. We are in business to make money for our stockholders and it would be admitted at the outset that we would go into a situation because we saw an opportunity to do a constructive job at a profit without risking our capital. If the Board of Governors concurred and it was in conformity with national policy we would like to feel that we could go wherever it would be good business to go. That is quite different from saying that we would go where we wanted to go.

With respect to the audit controls and reports from the branches, the branch managers have a loan limit which ranges for the different branches from \$500 to \$5,000. All other loans are reported to the head office. The foreign branches have no loan limit, however, and therefore all loans are reported. Any loan that exceeds the loan limit is submitted before there is a commitment. The loan supervisor is limited to loans of \$50,000. The head of the department has a limit of \$75,000. Everything over that amount goes to the loan committees and anything over \$400,000 goes to the general

finance committee. Our branches are inspected once a year by our inspection and audit department. They make a thorough inspection from the standpoint of procedure, custody of assets, and condition of assets. We plan to have an inspection of each foreign branch each year. The Comptroller of the Currency has not examined any of our branches in the Far East and has not examined the London Branch since 1937. I think he contemplates an examination of the Far Eastern branches this year.

We would like to establish another branch in London some time in the future for the reason that our branch is located in the city in close proximity to the Bank of England. Our business is largely with concerns that do business in the west end. Other American banks have branches in the west end largely to receive deposits and we should have an office there for the same purpose.

Traveler's Checks are an important part of our business. One of the reasons for our being in Germany is the large volume of traveler's checks to be expected as the military personnel travels around Europe. I do not say that these checks pay their own way but the fact that they are being carried all over the world builds up our prestige. You advertise the bank one way or another and our check business has contributed substantially to the bank's prestige and general welfare. The major sources of sales of traveler's checks are our branches. They are also sold by other banks in the U. S. and agencies outside of banks.

With respect to the application for three branches in Germany, in 1947 Secretary Patterson wanted banking services in Germany. They thought at that time they could license banks to operate in occupied areas in the same manner as they authorize facilities at army and navy establishments during the war. At their suggestion we made a formal application to open offices in Berlin, Frankfurt and I think Bremen. They went through the military and they came back and asked if we had the permission of the Federal Reserve Board. We then applied to the Federal Reserve Board. By that time, however, conditions had changed and we applied for permission to establish branches in Frankfurt, Bremen and Hamburg.

We have about \$2,500,000 of letters of credit outstanding covering imports into Germany for California firms. We think that, just as in any other similar situation, the establishment of a branch there now, even though under the limited license of the military, would put us in there. If they want to expand we would be there to do it. Before the

war we had a large volume of business in Germany and expect to have it again. If it doesn't materialize, we would come home.

There are thirteen branches of British banks in the British zone and one or more French branches in the French zone. There are two or three branches of the Chase Bank over there. The American Express Company has a number of offices. They do business in exchange, freight forwarding, and traveler's checks.

We do not know now what the extent of the business would be or whether we would make any money. On the other hand, it would not cost us very much to have the branches. Our answer to the question of cost is that if it would cost as much as \$25,000 a year for two or three years, that is not much of a risk. We do not know now what we want to do in Germany. At some point we are going to turn the administration back to the Germans. After we do that it is going to be too late to decide that we want representatives of American business in there, particularly in the banking field. It might be that one of the first things the Germans would do would be to restrict foreign banking. If we are already in there and making a peace treaty, they are not likely to restrict foreign banking to the extent of putting us out. I think one or more American banks should be in Germany now with a foothold in case we want to be in there. It would be easy to come home if we wanted to but it would be hard to get in there later on.

There is no capital requirement for the establishment of the German branch. We would just get a license to go in and operate. The amount of our operations would depend on our deposits. We would not put any money in at all.

In Siam our capital requirement is the equivalent of \$2,500. We probably will have to invest in Siam in operating expenses something like \$1,000 a month until such time as we begin to make something of the branch. In Manila before the end of the first year the bank was not only paying its own way, but we had recouped the organization expenses. In Japan we did that very quickly. London makes from \$12,000 to \$14,000 a month after paying a 45 per cent tax to the British Government.

On the question of how the bank would protect itself in the event of political disturbance or war, we have had the

experience of two wars which indicate that losses are small. The liability to depositors are in local currency and in case of occupation, the branch, is sequestered, becomes frozen, and the invader takes it over and starts to liquidate it on both sides of the ledger. Some banks substantially liquidated assets of their branches before the war and after the war, had deposits to be paid in depreciated currency. We can not always expect to liquidate before a storm but if it does come before we are aware of it, the enemy liquidates it and pays out to the extent they are able to liquidate the assets.

At this point Messrs. Dembits and Crossman left the conference.

Mr. Szymczak stated that the representatives of the Board would like to discuss the question of the capital position of the Bank of America and the ratio of its capital funds to assets.

Messrs. Smith and Pierotti were given copies of the attached table of ratios of capital accounts to total assets and to risk assets and the figures shown in the table were discussed.

Mr. Smith stated that he had had no notice that this matter would be taken up during the conference, that he was not prepared to discuss it officially, and that he could comment on it only in a general sense. He also said that he did not think the question of capital position was very important from the standpoint of the foreign branches because the amount of risk assets involved or the employment of capital in connection with the foreign branch operations was insignificant.

Mr. Szymczak stated that the question was broader than that because of the increased business the bank would get in the domestic field as a result of the existence of its foreign branches.

Mr. Smith responded that the day to day fluctuations in the bank's assets were very large but that they affected the capital ratios very little. He also stated that he would like to point out that in any analysis of the bank's capital ratios, account should be taken of the very large amount of guaranteed assets.

Mr. Millard stated that the percentage ratio of the bank's capital to adjusted risk assets, (assets remaining after deduction of cash, due from banks, U. S. Government securities at par, securities of Federal corporations not guaranteed, Federal Reserve Bank stock, real estate loans insured under Titles II and VI of the National Housing Act, and 40 per cent of G. I. loans guaranteed by the Veterans Administration) would be 12.7 per cent which, so far as we are able to determine from the published statements, compares with a percentage ratio of capital accounts to risk assets at the National City Bank of 15.8 per cent and the Chase National Bank of 19.7 per cent.

Mr. Smith commented that there had been a steady increase in the bank's capital, that its assets, however, had grown tremendously at the same time, that the management of the bank was not unaware of its capital position and had had discussions regarding it, but no plans had been crystalized.

Mr. Szymczak suggested that Mr. Smith discuss the whole matter with his associates and communicate either through Federal Reserve Bank of San Francisco or directly with the Board regarding it. This suggestion was made, Mr. Szymczak said, because the capital position of the bank and its relation to the establishment of proposed foreign banking operations was one of the things the Board felt it should take into account in considering applications for the establishment of foreign branches.

Mr. Smith inquired whether he was to understand that the Board would be hesitant to grant the three German branches on the basis of the bank's capital.

Mr. Szymczak responded that the representatives present could not speak for the Board but that it was not only a question relating to the pending applications but to future applications or other expansion as well so that the Board could consider the whole picture.

Mr. Clayton commented that the fact that the opening of three German branches might have an insignificant effect on the capital position of the bank did not mean that the Board would consider the question of capital of no importance since it had the responsibility to consider all of the factors applying in the situation.

Mr. Szymczak said that the more services the bank could render in many different places the more business it would get and that this would be related to the overall capital position of the bank.

Mr. Clayton added that the reference to the capital ratios of other American banks was not intended to imply that the Bank of America, which does a considerable amount of savings deposit business and makes a substantial number of real estate loans, should have the same degree of liquidity as the National City or Chase National Bank which do primarily a metropolitan business and make relatively few mortgage loans.

Mr. Smith stated that there was another question that he would like to lay before the Board and that was the attitude of the Board to the possible acquisition of or merger with a bank in a foreign country. Suppose, he said, another foreign bank desired to withdraw its branch from a foreign country and wanted to sell the business, or suppose a bank in a foreign country wanted to sell out which might mean the acquisition also of branches of that bank. What would be the attitude of the Board on propositions of that kind?

Mr. Clayton stated that these transactions would raise the same questions as to capital as had been discussed during the conference.

Mr. Smith expressed the opinion that it would be very helpful if representatives of the bank and the Board could talk frankly about the various questions raised during this conference and that he still did not know very much about the Board's attitude with respect to the development of the foreign banking business. He hoped that at the proper time the bank would be given some indication of the Board's attitude.

Mr. Szymczak stated that there had been some indication in the discussion that had taken place.

Mr. Clayton stated that the establishment of the branch of the Bank of America in Siam had been approved because of the special circumstances involved and that the same facts were not applicable to the German situation.

At the conclusion of the discussion it was understood that Mr. Smith would review with his associates the question of the capital position of the bank and that he would communicate with the Board again.

On the morning of Thursday, April 14, 1949, Mr. Smith called Mr. Szymczak and stated that he would like an opportunity to meet again with the representatives of the Board with whom he met yesterday. Mr. Szymczak advised Mr. Smith that the members of the Board and the staff who were available would be glad to confer with him at 11 o'clock and the conference convened in the Special Library at that time with Messrs. Smith, Pierotti, Draper, Carpenter, Vest, and Millard present. Mr. Szymczak was not in attendance at the beginning of the conference but came in as soon as he returned from another appointment.

Mr. Smith made substantially the following statement:

I appreciate your giving me another opportunity to come back and talk a little more. After thinking over what transpired at the conference yesterday, I find myself somewhat in a quandary and therefore want to raise another question or two. First, I would like to point out that I had a communication from Mr. Carpenter, the Secretary of the Board, which stated in part:

The Board does not believe that it would be justified in approving these applications on the basis of such information as it now has. However, there are certain important questions which have arisen in connection with our consideration of the applications and, before taking final action in the matter, the Board feels that it would be desirable to have a discussion of these questions at a meeting in Washington between representatives of the Board and a senior officer or officers of your bank. If this is agreeable to you, we suggest that you get in touch with the Federal Reserve Bank of San Francisco in order that a mutually convenient time for such a meeting may be arranged.

Mr. Mangels, First Vice-President of the Federal Reserve Bank of San Francisco, advised me on April 6 that the Bank had advised the Board of Governors by telegram that I and Mr. Pierotti would meet with representatives of the Board on April 13. I asked Messrs. Earhart and Mangels if they could give me some indication of what the subject matter would be so that I could bring with me the right records and be prepared with the right information. Neither of them could give me more information than was indicated in Mr. Carpenter's letter. I came prepared to discuss the German situation. I expected more or less to be enlightened as to the future in Germany—matters of knowledge that might not be available to me. It appeared to me as I reflected on the conversation of yesterday that so far as the

plans of the Bank were concerned with respect to operations, procedure, and what we proposed to do, there were no questions. We discussed those things at length and since there were no further questions, I can only assume that there is nothing further desired in the way of information or questions, and that we find ourselves in agreement on questions of policy and procedure. Then you presented the tabulation of capital ratios. There was an explanatory statement, but I do not understand why I could not have been warned about this particular subject being on the agenda which was prepared in advance. The question I would like to ask is whether we are to understand from the discussions yesterday that the Board, in effect, is saying that it will deny the Bank of America the authority in the foreign banking field that is within the powers of the Board to withhold unless the Bank raises its capital ratio to the average of all banks in the United States.

Representatives of the Board responded that Mr. Smith's assumptions and interpretation of the discussions yesterday were not warranted, that the purposes of the conference yesterday were to get additional information on the various points discussed which information would be reported back to the Board of Governors for consideration and such action it would wish to take, that the three members of the Board present yesterday were not authorized to speak for the Board, that the discussion did not warrant the assumption that the Board would agree or disagree with the policy or procedures of the Bank in the foreign field, that there was no intention to take Mr. Smith by surprise, but that the capital position of the Bank was one of the important considerations to be taken into account by the Board in considering the Bank's application for foreign branches, and that the presentation of the tabulation of capital ratios was not to be interpreted as a request by the Board that the Bank increase its capital.

In the ensuing discussion, Mr. Smith stated that if the Board was, in effect, asking the Bank to enlarge its capital stock to the average of banks in the United States, it would be asking that it add roughly \$250 million to its capital structure which is a lot of money from the standpoint of the stockholders, and he questioned whether it could be raised at this time. He also said that the Comptroller of the Currency had approved the establishment of certain domestic branches recently and inasmuch as the question of the sufficiency of the Bank's capital was one primarily for consideration by the Comptroller of the Currency, it was to be assumed that since he raised no question on that point, he was satisfied with the Bank's capital. He went on to say that in the discussion yesterday one of the members of the Board referred to the establishment of two or three foreign branches as a matter of trifling impact on the

capital position, and that it did not seem reasonable, if that were the attitude of the Board, that a request for a capital increase should be made. As stated yesterday, he said, there were two routes by which the Bank of America could expand its foreign banking business, one was through correspondent bank relationships over which the Board had no authority, and the other was through channels which the Board had power to authorize. He added that the choice of the Bank depended upon the requirements of the Board. He made the further statement that if he went back to his Bank and asked the question presented by the Board as to what the Bank was going to do about its capital position, the next question would be: What (that is, how much capital) did the Board want for the establishment of the branches?

Representatives of the Board stated that the discussion yesterday developed a great deal of information which would be useful to the Board in arriving at the decision on the three German branches, and, while one foreign branch might not be of importance from the standpoint of its effect on the capital position of the Bank, if the number of foreign branches should grow to 25 or 50 or more, that number would have an important effect on the capital position of the Bank, and that on that basis, it was well to discuss the matter now. Mr. Smith responded that the question of a large number of branches would not be presented to the Board at one time and that it would have an opportunity to pass on each branch as application for its establishment was made.

There followed the discussion of the capital ratios shown in the tabulation presented at the conference yesterday and of changes in the capital ratios of banks in recent years.

Mr. Smith stated that he had the same reaction to the discussion yesterday that he received when the Bank was asked by the Board, through the Federal Reserve Bank of San Francisco, what its plans were for staffing the branch in Bangkok, Siam; that he could not believe that the Board would be much concerned whether the Bank with its 14,000 employees and officers would not have the necessary skill to bring together an adequate staff to start the branch at Bangkok; and that the request had appeared to be nothing more than a device for "stalling the thing along." He had the same feeling, he said, about the discussion yesterday.

Mr. Smith was assured that there was no intention on the part of the Board to delay action, and he was asked whether he would agree that the capital position of the Bank was one of the factors that the Board should take into consideration in exercising its responsibility under Section 25 of the Federal Reserve Act. His reply was that he was not sure that he would agree on that point and that the prime consideration was whether the branch would serve American business abroad. He also said that the Comptroller of the Currency

concerned himself with the capital structure of national banks and that his action in granting establishment of domestic branches had put his approval on the capital position of the bank. Representatives of the Board made it clear that the Board thought it should consider the capital position of the bank in acting upon applications for permission to establish foreign branches.

At this point Mr. Szymezak joined the conference and upon being informed of the discussion that had taken place expressed agreement with the statements made by the other representatives of the Board. He added that the Board was not trying to delay the establishment of branches by the Bank of America or anyone else, that the application for the establishment of a branch in Siam raised the question of the over-all position of the bank in foreign fields, and that it was decided to take action on the branch of Siam because of the special situation there, and to obtain further information with respect to the three German branches. He made the further statement that what the position of the Board would be on these branches the representatives present could not say, that the information obtained in these conferences would be presented to the Board after which it would decide the action to be taken, and that if the Board should decide not to approve the applications it would have to state the reasons for the decision. The information given in the discussion yesterday, he said, would help to clear up certain questions and enable the Board to know what the bank was thinking as to the future.

Mr. Smith stated that he had felt that he would be less than honest if he had not come back and given the representatives of the Board his reaction to the discussion yesterday. He also said that the bank kept the Comptroller of the Currency advised and that he had consented to a stock dividend of 20 per cent, which had as its purpose a reduction in the market price of the stock. In filing the application for permission to declare the stock dividend, he said, the bank indicated that that was a first step. It was contemplated that some additional stock would be issued, depending upon conditions in the market, the kind of arrangement that could be made, and the judgment of the bank as to timing. He added that developments up to this point could not be called a plan for the issuance of additional stock as there was only an intention to do so, which as yet had not gone beyond the preliminary stages of discussion.

Mr. Szymczak asked Mr. Smith if he had been in touch with other officers of the bank since the conference with representatives of the Board yesterday and he responded that he had and that, while there had been discussion of the problem of additional capital for the bank, the above statement was as much as anyone could say at this time about the plans of the bank for an increased capital and that no one knew how much stock would be issued, when it would be issued, or at what price.

Reference was made again to the question whether the Board should take the capital position of a bank into account in considering an application for establishment of foreign branches and Messrs. Smith

and Pierotti reiterated their position that the primary consideration in that connection was whether the branch would serve American business and that the responsibility for an adequate capital structure of a national bank rested with the Comptroller of the Currency rather than with the Board. Mr. Szymczak responded that while the Comptroller of the Currency had primary responsibility the Board had responsibility also.

Mr. Smith stated that aside from its special powers in the foreign field, the Board did not have authority over the capital of national banks. He repeated that he wanted to know whether there was any implication in the discussion that the Board was going to withhold approval of the German branches unless the Bank of America increased its capital to the average for the United States. Mr. Szymczak replied that the Board had not stated what its position would be on that point, whereupon Mr. Smith stated that if that requirement was to be made, he was sure the bank would take the route of developing its bank correspondent relationships rather than to establish branches.

Mr. Szymczak referred to the comment made by Mr. Smith yesterday that the bank would be prepared to go into any foreign country where it would be in the interest of the bank to do so and stated that that approach raised the over-all question of what the policy of the Board should be.

Mr. Szymczak inquired if Mr. Smith had discussed the capital position of the bank with the Comptroller of the Currency while he was in Washington, and Mr. Smith replied that he had. In response to an inquiry from Mr. Szymczak as to whether the Comptroller of the Currency thought that the bank should do something about its capital position, Mr. Smith said that he would not say that that was the case.

Mr. Smith asked whether he was to understand from the discussion that there was no implication one way or the other as to whether the Board would have a requirement for increasing capital in connection with the establishment of the three German branches, and Mr. Szymczak responded that that understanding was correct, that what the representatives of the Board would do would be to convey the information that they had been given in the discussions to the Board and the Board would reach its decision in the matter.

Mr. Smith then stated that he would leave with the understanding that since he had given information with respect to the present status of the Bank's plans for increasing its capital and there was nothing more that could be said on that matter at this time, he was not expected to convey to his associates the impression that the Board would require additional capital as a condition precedent to the approval of the German applications, that the next step was to be taken by the Board, and that the Board was to decide whether it

would or would not approve the three German branches or would approve them only upon certain conditions.

The representatives of the Board stated that Mr. Smith's understanding of the matter was correct.