

Federal Reserve Notes

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FED REVIEWS POWERS OF HOLDING COMPANIES

The Federal Reserve Board of Governors took several restrictive actions this month in the field of bank holding-company expansion. The Board rejected an application by Citicorp (New York) to buy three finance companies through a subsidiary, Nationwide Financial Services Corp. It also began to review the question of whether automobile leasing should continue as a permissible activity for holding companies.

In its Citicorp action, the Board stressed the anticompetitive features of the proposal, saying the acquisitions would eliminate "existing, future and potential competition between Nationwide and each of the finance companies." Two of the three companies are located in this district—in Los Angeles and Seattle—and the third is in Iowa.

The Board also emphasized "its general concern with the rapid expansion of some United States banking organizations in both domestic and foreign markets and the implications of such expansion for the financial positions of the institutions." It added that the holding company "might better serve the public by directing its financial and managerial resources toward maintaining strong and efficient operations within its existing structure."

The auto-leasing case began last year, when the Board issued an amendment to its Regulation Y (Bank Holding Companies) permitting these companies to engage in certain leasing activities which were equivalent to an extension of credit. Shortly

PHASED RESERVES SET FOR NEW MEMBERS

The Board of Governors has liberalized its reserve-requirements policy for banks joining the Federal Reserve System, so that the additional costs associated with maintaining larger reserves can be assumed gradually over a two-year period.

"Transitional relief is appropriate to provide banks with time to permit an orderly adjustment to the abrupt one-time increase in costs," the Board stated. "The transitional relief granted should take the form of a waiver by Reserve Banks of penalties for deficiencies in reserve requirements on a graduated basis over a 24-month period."

As an example of the relaxed policy, the Board said that a Federal Reserve Bank would be authorized to waive the penalty resulting from a reserve

afterwards, the National Automobile Dealers Association asked the courts to review the legality of such leasing activities. Among other things, NADA argued that auto leasing is not closely related to banking and does not serve as the "functional equivalent of an extension of credit" as required by Reg Y.

After the initial arguments, the Board of Governors obtained the courts' permission to return jurisdiction of the matter to the Federal Reserve System so it could consider the issues raised by NADA. Relevant data, views and arguments on this matter should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, no later than December 22. 🏛️

deficiency equal to 100 percent of the transitional reserve requirement for the first three months of membership. During the following three-month period, the penalty resulting from a reserve deficiency equal to 95 percent of this transitional reserve requirement could be waived. The reserve requirements would be increased gradually each three months until full compliance is attained in two years.

The liberalized policy would apply to non-member banks that join the system, as well as member and non-member banks that merge with banks that are already members of the system.

In case of merger with a member bank, the reserve requirements of the resulting bank normally increase (continued on page 2)

NEW PROVISIONS FOR STATE MEMBER BANKS

The Federal Reserve Board of Governors has amended Regulation F—Securities of State Member Banks—to bring its regulations into line with rules issued by the Securities & Exchange Commission. Comparability between these regulations is required under the terms of the Depository Institutions Act of 1974.

Under the Fed's Reg F, State member banks with 500 or more stockholders must register and file periodic reports with the Board and comply with requirements in connection with the solicitation of proxies from shareholders (continued on page 4)

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more than proportionately because of graduated reserve requirements on net demand deposits. The new Fed policy would permit such a bank to maintain (in vault cash or reserve balances) the difference between the amount of required reserves calculated on the basis of its current deposit liabilities and the amount of the transitional reserve requirement that is waivable during the transition period.

For further information on transitional reserves, banks in the Twelfth District can contact their nearest Fed office.

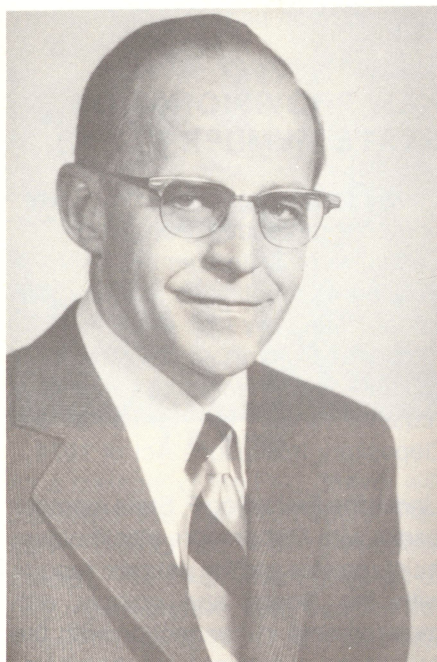


INTERNATIONAL BANKING IN THE FED SPOTLIGHT

An international-banking conference for Seattle area executives was held this month by the Seattle Branch of the Fed to discuss recent developments in one of the fastest growing segments of commercial banking.

In his keynote speech, President John J. Balles said the nation is witnessing the dawning of an era of world banking—a parallel development to the growth of industry's multinational corporations.

He said that bankers today view the world's money and capital markets as



John J. Balles

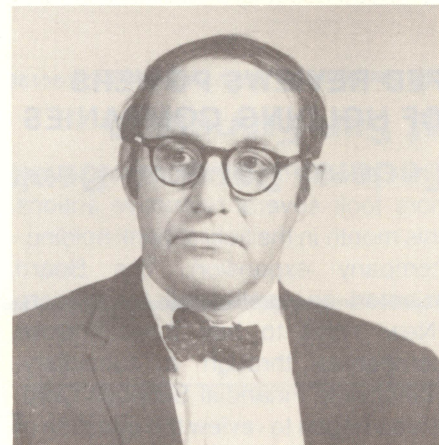
ALIBER KEYNOTES FOREIGN EXCHANGE SEMINAR

Professor Robert Z. Aliber was the keynote speaker at a Foreign Exchange Seminar hosted by the San Francisco office of the Fed in mid-November. Aliber told foreign exchange specialists that "looking down the road, an informal agreement will probably be reached to peg rates at an economic summit meeting," but he added that this would not happen until world inflation stabilizes at a substantially lower rate than the 9 percent of 1975.

Aliber is the Visiting Scholar at the Federal Reserve Bank of San Francisco. He is Professor of International Economics and Finance and Director of the Program of International Studies in Business at the Graduate School of Business of the University of Chicago.

"The move to floating exchange rates in the early 1970s was inevitable, given the surge in national rates of inflation," Aliber said. "For most of the post-World War II period, most foreign currencies were pegged to the dollar, with the United States selling gold for dollars at \$35 an ounce. Pegging was possible as long as inflation rates were modest. In early 1973 the United

States and other major nations decided to let their currencies float. Since that time, the value of the mark, the yen, the Swiss franc, and sterling have been determined by supply and demand, and there have been substantial variations in exchange rates, especially between the dollar and the Continental European currencies."



R.Z. Aliber

The Foreign Exchange Seminar was held by the San Francisco Fed to promote communication among those actively engaged in the foreign-exchange market, and to help practitioners in the field to share the expertise of leading economists from the academic world.

a whole in the gathering and placement of funds. "American banks are at the center of the business; 125 American banks now operate abroad, with some 730 branches and with net foreign assets amounting to more than \$125 billion."

The Fed President said that the West Coast has become a leader in world banking. In the San Francisco Federal Reserve District, there are 18 banks with foreign operations, and they have 130 overseas branches and more than \$30 billion in foreign assets.

"Yet the spread of world banking has raised a number of difficult issues for the world's central-banking authorities," Balles added. In this connection, he discussed the need for legislation to bring the foreign banks operating in this country under effective Federal control. "No other major country allows foreign banks to

operate inside its borders without national regulation."

Under the Foreign Bank Act of 1975, as proposed by the Federal Reserve, foreign banks would have the same privileges that are available to equivalent domestic banks in this country, but no more privileges than that. "This principle of 'nondiscrimination' would mean the establishment of competitive equality between foreign and domestic banks," he added.

Fed economist Robert A. Johnston, analyzing the new legislative proposal, said that it would establish for the first time Federal control over the entry of foreign banks into the United States.

"The law would also strengthen the ability of authorities to negotiate with foreign governments for nondiscriminatory treatment of our banks

BANKERS, THE LAW AND BOOK-ENTRY

The risks and liabilities associated with book-entry transactions are summarized in a newly released analysis by the Federal Reserve System's Subcommittee of Counsel on Fiscal Agency Operations. The report concludes that while book-entry involves liabilities comparable to those associated with the handling of physical documents, it substantially reduces the risk of loss and theft of government securities.

Book-entry refers to the substitution of computerized records for the actual engraved pieces of paper representing obligations of the United States. Under the book-entry system, the physical documents are eliminated. Instead an accounting entry designating ownership of a security is made and entered on the computerized records of a Federal Reserve Bank.

The procedures were introduced in 1968 by the Federal Reserve and the Treasury to cope with the increasing volume of government securities. Book-entry has enabled the Fed to utilize high-speed data-processing equipment and thus has sharply reduced the need to issue, store,

abroad," he said. "Its overall aim is to establish competitive equality. For example, it would restrict the ability of foreign banks to expand across state lines unless similar privileges have been extended to banks here."

Summing up the regional impact, Fed economist Hang-Sheng Cheng said the economic fallout from international banking will be substantial.

"The West Coast has clearly emerged as a major international banking center second in importance only to New York. As it matures, a wide range of supporting services will have to be developed for its continued growth". Cheng said that the result will be new institutions in such fields as accounting, communications, the law, economic research, training and personnel. 🏛️

handle, process and transport tons of paper documents.

Here's how book-entry works. A private owner or custodian maintains eligible securities in book-entry form with a commercial bank that is a member of the Federal Reserve System. The commercial bank in turn maintains the securities in book-entry form with its district Reserve Bank. If a private owner wants to transfer ownership, he notifies the commercial bank; if a member bank wants to transfer securities to another bank, it simply notifies the Fed.

Book-entry procedures may provide the optimal solution to the problem of thefts, according to the System report. These procedures reduce the risk of loss because they eliminate an intrinsically valuable certificate representing a government security and replace it with a computer entry. Such records generally are easier to safeguard, especially in connection with transfers and pledges, because they are freed from the risk of physical theft.

"Transactions involving book-entry securities do not require the application of any novel legal system," the report says. "Although the concept of book-entry securities may appear

somewhat complex, the program has been structured so that to the extent feasible the legal principles which apply to bearer-definitive securities will also apply to book-entry securities."

This means that no special or unique safekeeping receipt is required for book-entry. Third-party owners of book-entry securities are protected from misappropriation of their securities, or from bank insolvency, in much the same way that they are protected in regard to their definitive securities.

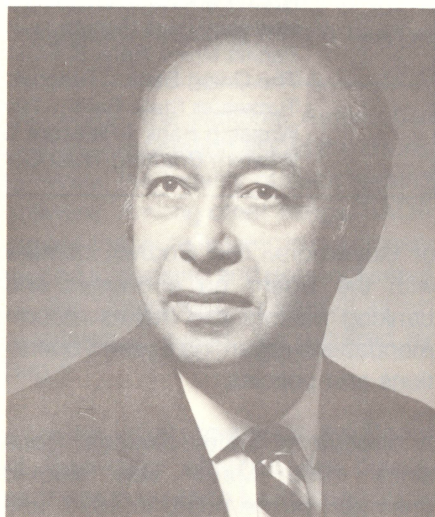
Generally, banks are only liable for the loss or destruction of definitive securities deposited with them for safekeeping if they are negligent. In the same manner, the Federal Reserve is liable to member banks for loss of securities held in book-entry form due to lack of due diligence in caring for the securities.

At the present time, book-entry procedures are utilized for all United States government securities. In addition, these procedures have been applied to such agencies as the United States Postal Service, the Farm Credit Administration, the Federal Home Loan Bank Board, the Farmers Home Administration, the Federal National Mortgage Association, and the Federal Financing Bank. About 280 government and agency issues are now on the eligible list for book-entry. 🏛️

cisco after 34 years of service.

Depper joined the Fed in 1941 and served in several supervisory and administrative positions before joining the Examination Department in 1952. For the past 20 years he has specialized in the trust examination field. He was appointed Examining Officer in 1970 and promoted to his present position last year. In this capacity Depper was responsible for supervision of the examination of the trust departments of all state member banks in the Twelfth District.

A member of the State Bar of California, Depper graduated from Boalt Hall of Law at the University of California in Berkeley and holds LLB and JD Degrees. 🏛️



M. S. Depper

DEPPER RETIRES WITH 34 YEARS SERVICE

Martin S. Depper, Assistant Vice President and Chief Examiner of Trusts, retired this month from the Federal Reserve Bank of San Fran-

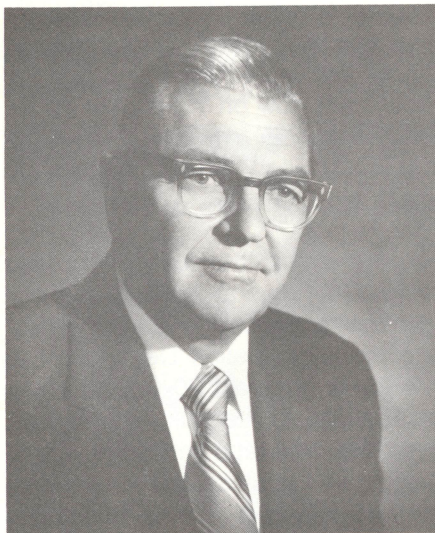
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MAYER REAPPOINTED TO ADVISORY COUNCIL

James B. Mayer, Chairman of the Board and Chief Executive Officer of Valley National Bank of Arizona, has been reappointed to the Federal Advisory Council for 1976 by the Board of Directors of the Federal Reserve Bank of San Francisco.



J. B. Mayer

As a member of the FAC, Mayer will represent the Twelfth Federal Reserve District on the 12-member council. The FAC, which consists of one representative from each of the Federal Reserve Districts, meets four times a year in Washington, D.C., with the Federal Reserve System's Board

WELCOME TO THE DISTRICT

NEW NATIONAL BANK

First Security Bank of Murray - Utah

NEW NONMEMBER BANKS

Bank of Commerce of San Diego - San Diego, California

Bank of Redlands - Redlands, California

Bountiful Valley Bank - Bountiful, Utah

Commonwealth Bank - Hawthorne, California

Desert Trust Company of California - Commerce, California

First Independent Trust Company - Sacramento, California

First Security State Bank of Kaysville - Kaysville, Utah

Heritage Bank - Anaheim, California

Mid Valley Bank - Corning, California

North Park Bank of Commerce - Logan, Utah

Northern Trust Company of Arizona - Phoenix, Arizona

Pacific Union Bank & Trust Company - Menlo Park, California

The Union Bank - Tacoma, Washington

Tumwater State Bank - Tumwater, Washington

Wasatch Bank - Pleasant Grove, Utah

Western Bradford Trust Company - San Francisco, California

of Governors. The Council confers with the Board on economic and banking matters and makes recommendations regarding System operations and policies.

A director of Valley National Bank since 1956, Mayer was elected chairman of the board in 1972, and named chairman and chief executive officer the following year. He assumed responsibilities of the chairman's office after completing a 25-year career with Producers Cotton Oil Company, which operates an extensive agribusiness enterprise in California and Arizona. 🏛️

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ers. In addition, officers, directors and principal stockholders of such banks are required to file reports of their bank stock ownership.

The amended regulation stipulates that no tender offer may be made for a bank's stock unless certain relevant information is concurrently filed with the Board of Governors. All reports filed under Regulation F are publicly available. The regulation applies to 60 state member banks. The Comptroller of the Currency and the Federal Deposit Insurance Corporation have issued similar regulatory revisions for banks under their supervision. 🏛️