

Minutes for November 21, 1958

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	x <u>MM</u>	_____
Gov. Szymczak	x <u>AMS</u>	_____
Gov. Vardaman	x _____	_____
Gov. Mills	_____	x _____
Gov. Robertson	x <u>R</u>	_____
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	x <u>SS</u>	_____

Minutes of the Board of Governors of the Federal Reserve System on Friday, November 21, 1958. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
 Mr. Balderston, Vice Chairman
 Mr. Szymczak
 Mr. Vardaman
 Mr. Robertson
 Mr. Shepardson

Mr. Sherman, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Hackley, General Counsel
 Mr. Masters, Director, Division of Examinations
 Mr. Hexter, Assistant General Counsel
 Mr. Nelson, Assistant Director, Division of Examinations

Discount rates. Unanimous approval was given to telegrams to the Federal Reserve Banks of New York, Philadelphia, and Minneapolis approving the establishment without change by those Banks on November 20, 1958, of the rates on discounts and advances in their existing schedules.

Items circulated or distributed to the Board. The following items, which had been circulated or distributed to the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

	<u>Item No.</u>
Letter to the Federal Reserve Bank of New York approving its acting as fiscal agent for the International Bank for Reconstruction and Development in connection with a bond issue.	1
Letter to the Comptroller of the Currency recommending approval of an application to organize a national bank at Dallas, Texas.	2

11/21/58

-2-

Item No.

3

Letter to the Comptroller of the Currency regarding the eligibility of certain acceptances under Regulation C and Section 13 of the Federal Reserve Act.

Application of Wachovia Bank and Trust Company. In view of the fact that Governor Shepardson was to be out of town next Monday and Tuesday, there was further discussion of the application of Wachovia Bank and Trust Company, Winston-Salem, North Carolina, to establish two branches in Wilmington incident to a proposed merger with The Wilmington Savings & Trust Company. At the beginning of the discussion Chairman Martin stated that action in the matter would not be taken at this time.

Governor Shepardson said that he continued to find this case very difficult. The Board was faced with a situation involving circumstances similar to those in the Old Kent Bank and Trust Company case. He had tried to determine whether there were any significant differences, especially from the standpoint of competitive aspects, but thus far he had not been able to develop any facts which would appear to justify a conclusion different from that originally reached by the Board. Under Wachovia's revised proposal Board approval of the merger itself was not required and Wachovia contemplated a consolidation of its principal Wilmington office with the head office of Wilmington Savings & Trust, so that in effect the Board was now called upon to approve only the continued operation of one existing branch of Wilmington Savings & Trust, a branch for which there appeared to be a definite

11/21/58

-3-

public need. If it should be decided to close that branch and if a new application should be submitted after a period of time, the application apparently could be approved on the basis of demonstrated need. Accordingly, one might say that the Board was in the position of taking a futile action by denying the revised application. Governor Shepardson repeated, however, that he had not been able to find any significant differences with regard to effects upon competition which would distinguish this case from the Old Kent case. If such differences could be developed, he would like to know of them because his inclination would be to change his position on the Wachovia case if there was any basis for a justifiable distinction.

After some discussion of Wachovia's revised application, Governor Balderston said that he also had been concerned about the problem mentioned by Governor Shepardson. He referred to a memorandum from Mr. Hackley dated November 20, 1958, concerning the legal aspects of Wachovia's two proposals, and said that after studying the memorandum he had set down certain tentative views. He then read the following memorandum:

In my view, the Wachovia Bank and Trust Company proposal, growing out of its acquisition of the Wilmington Savings and Trust Company, has changed between the initial proposal and that of November 17. The central issue raised by the initial proposal was whether or not the merger would have an adverse effect on banking competition in Wilmington. The Board decided that it would and denied the application.

The second proposal, by increasing the capital of the combined institutions, removes the merger decision from the authority of the Board. It leaves only the determination

11/21/58

-4-

as to whether or not the continuing institution, Wachovia, shall be permitted to operate its Wachovia branches in two banking offices formerly belonging to Wilmington Savings and Trust. Consequently, the problem before the Board is to determine whether these two offices provide an incremental increase in the competitive domination of Wachovia in the Wilmington area great enough to warrant closing up two existing offices, one of which has such a volume of business as to approach that of the main office of the Wilmington Savings and Trust. My point is that the issue now before us has changed. Originally it focussed upon the effect of the merger upon the total competitive situation in Wilmington. It has now shifted to the incremental increase in its power to dominate if Wachovia operates branches at two sites where Wilmington Savings and Trust has heretofore operated banks. The measure of its projected domination is therefore not 69 per cent of deposits and 75 per cent of loans, but only that portion which can be attributed to the operation of the two branches by Wachovia.

Against the incremental increase in competitive domination referred to above must be balanced the needs of the community. There is testimony to the effect that one of the two proposed Wachovia branches is so well situated as to be used by a large number of depositors who would doubtless be inconvenienced if the branch were closed down. This is true even if a banking institution other than Wachovia were ultimately to establish a branch on or about the same location. In stressing the inconvenience of forcing depositors to give up a banking office that they have been using, I am distinguishing between a banking office that is in being and one that is proposed to take care of present or potential needs in a neighborhood where a banking office has not existed before. What is involved here is the disestablishment of two banking offices in case Wachovia is forbidden to operate at these sites. In the case of a new banking office to be established on a new site, this Board might deny a large bank or holding company access to the region without creating as much ill-will, misunderstanding and feeling of being abused as would be found among depositors at an existing banking office were the latter to be closed by a ruling of this Board.

In the light of the amended proposal from Wachovia, the issue now before the Board would appear to be as

11/21/58

-5-

follows: Does the increase in domination by Wachovia that would be traceable to the operation of these two branches (and not to the merger per se) justify the inconvenience to present users of closing these two branches?

Governor Vardaman asked whether one could actually separate in his mind the operation of the branches and the merger itself and whether the Board would not have to consider the whole matter as a package, at least from a policy standpoint. By granting approval to operate the two branches, the Board would be in effect cooperating with the merger plan. In a sense this plan would preempt the Wilmington area for Wachovia, since in his opinion it would become almost impossible for any competitive institution to establish itself if Wachovia did a good job in the area. The proposal first came to the Board in a form in which approval of the merger was sought and, as he saw it, the principles involved had not changed. Therefore, he had doubt about the advisability of putting the Board on record as constructively approving the proposal.

At the request of the Board, Mr. Nelson then reviewed the factual situation in the Old Kent case and certain comparisons were drawn between aspects of the situation in Grand Rapids and in Wilmington. This discussion included a summary of the location of banking offices in Wilmington from which it developed that after the merger and proposed consolidation of offices, Wachovia would operate two out of four offices in the downtown area and one of three branches in outlying sections. It was not entirely clear from information before the Board how much time would be required to effect consolidation of the Wachovia branch and the Wilmington Savings & Trust head office.

11/21/58

-6-

Commenting further about the problem of "futility" mentioned by Governor Shepardson, Governor Balderston said he felt strongly that it was desirable for the Board of Governors to have statutory authority over mergers, and when this case first came before the Board the proposal was in a form which required Board approval of the merger. Subsequently, however, the merger itself was removed from the Board's jurisdiction and there was presently before the Board only a request for the approval of two branches, one of which was to be abandoned at a later date. Also, the request was not for the approval of new branches; rather the Board was being asked not to require the disestablishment of an existing office. The Board was dealing with the convenience of the community in the present and future and whether to attempt to limit the domination that Wachovia would achieve through a merger that the Board lacked authority to disapprove. Essentially, the question was whether Wachovia's domination would be enhanced sufficiently through operating the Third Street office to warrant disapproval of the application.

There followed discussion of the competition afforded in Wilmington by savings and loan associations and the extent to which such competition should be weighed in a case of this kind. It was pointed out that in the Baystate Corporation case decided by the Board several months ago under the Bank Holding Company Act, it seemed appropriate to give some weight to competition furnished by mutual savings banks, and it was suggested that in considering the public interest some weight should be given to the competition afforded by savings and loan

11/21/58

-7-

associations in certain of the fields of activity in which commercial banks are engaged. It appeared that in Wilmington the four savings and loan associations had been growing at a substantial rate and constituted a stronger factor in the total picture than in Grand Rapids. It was pointed out, however, that the exact measurement of savings and loan competition was difficult.

Governor Shepardson then referred to certain other points that he felt might have some bearing on the case. The first of these had to do with representations by Wachovia and Wilmington Savings & Trust that a considerable proportion of the deposits of the latter bank came from outside the Wilmington area. Another point related to the fact that negotiations had proceeded so far that stockholders of the Wilmington bank might be injured if the proposal were not carried out. To give too much weight to the second point, Governor Shepardson suggested, might lead to the argument that the Board was estopped from taking negative action if, in a particular case, steps had been taken by the parties concerned on the assumption that clearance of the proposal would be forthcoming.

At the Board's request, Mr. Hackley commented from a legal standpoint on the Grand Rapids and Wilmington cases. He said that as far as legal aspects were concerned the two cases were quite similar, although there might be factual differences the Board would wish to consider in reaching a determination. There was, for example, the question whether enhanced domination resulting from the operation of

11/21/58

-8-

additional facilities in Wilmington by Wachovia would be sufficient to offset whatever public need existed for those facilities. It might be said, Mr. Hackley noted, that if the Board approved the branches under the revised proposal there would be some element of inconsistency. It might be charged that the Board turned down the branches when the merger came within its authority and later approved the branches when it did not have authority with respect to the merger.

Mr. Solomon, Assistant General Counsel, who had joined the meeting during this discussion, commented that the two situations appeared to be quite similar factually except that the larger size of Grand Rapids might suggest that there should be more banking choices than in Wilmington, where a greater concentration of banking resources might be more defensible. On the other hand, Old Kent was getting very strong competition from the local branch of the Michigan National Bank, an institution with large resources, while in the Wilmington case the large outside institution was the one seeking to improve its position in the area. The incremental effect of an additional branch of Wachovia could be argued to be quite devastating when considered in the light of the power already in the hands of Wachovia, particularly when the effect of the merger would be to eliminate the largest existing competitor.

Governor Shepardson then said that although he would like to find some grounds on which he could logically change his position, the similarity of the Wachovia and Old Kent cases led him to the tentative conclusion that he would have to maintain his original position. In

11/21/58

-9-

saying this he recognized that the fact that the parties concerned had moved forward as far as they had, perhaps injudiciously, aggravated the problem. In a later comment he indicated that he had not yet completed his study of the matter and that he had asked the staff for further information on certain points because of his concern about the case.

Governor Robertson said that he could not recall any case harder to decide than this one, and that his sympathies had wavered back and forth. He noted, however, that this matter came up after Wachovia had knowledge of the Old Kent case. This case possibly was pushed ahead, then, because of the Old Kent case and later was switched around so that the Board would not be in a position to act on the proposed merger because of the issues raised by it. His present inclination was to feel that if the Board approved the application it would be saying that its power to approve branches was of no moment at all in the case of a merger which did not require the Board's approval. If in every case the Board must approve branches automatically because the related merger could be approved by other authorities, there would be little point in having the power to pass upon branches. Consequently, it came to the question whether the Board, acting under its statutory authority to approve branches, felt that this was an issue which should be resolved in favor of Wachovia or against it. His present inclination was to feel that the Board should not exercise its power in support of a program that would eliminate one institution and give Wachovia greater control over banking in the area concerned.

11/21/58

-10-

Governor Szymczak said that he thought the principles were still the same as when the matter first came before the Board. In the circumstances, he did not know what the Board could do except to reaffirm its original decision. He had been hoping that someone would point out reasons which would justify a change in his vote but he had not yet heard such reasons stated.

Chairman Martin said that although he had wavered back and forth in his thinking in this case, he felt that the Board must face up to the practicalities of the situation and look at the end result. He could not draw any real distinctions between this and the Old Kent case except along value lines, but in that area he could see some differences. These involved matters of judgment and were not based on any particular logic. Nevertheless, he had a question as to the extent to which the Board ought to take an inadequate statute and attempt to achieve results in a manner that could be construed as harassment. He had tried to put himself in the place of the general public in Wilmington and found it difficult to persuade himself that the ordinary businessman could understand the position of the Board if the branch application were denied. One might say that the same reasoning would apply with equal force in the Old Kent case but he felt that there were some distinctions, including, for example, differences in population, the number of banking offices, and the extent of savings and loan competition. As to the latter, there might be some technical problems from the standpoint of functions performed, but without doubt the savings and loan associations

11/21/58

-11-

do attract some business that normally would flow into commercial banking channels. Some weight, therefore, must be given to the competition afforded by them.

Governor Szymczak then made certain further comments in which he indicated that his thinking was influenced not only by the specific facts of the current application but also by broader questions of tendency toward monopoly and lessening of competition. He hoped it might be possible to obtain judicial decisions that would serve to interpret the law and, if necessary, lead to more adequate legislation.

After further discussion relating to the position and growth of the savings and loan associations in the Wilmington area, Chairman Martin stated that the Wachovia application would be discussed further at the meeting next Monday.

All of the members of the staff except Mr. Sherman then left the room.

Mission to Okinawa. Governor Robertson referred to the reports he had made at the meetings of the Board on September 29, 1958, and October 8, 1958, regarding a request of the Department of the Army for assistance by the Federal Reserve in an appraisal of the banking situation in the Ryukyu Islands. He now had received further information indicating that the purpose of the mission to Okinawa would be to develop recommendations for the benefit of the Commandant, who is also the chief United States civil authority on the Islands, and that it now appeared

11/21/58

-12-

that two persons were needed for the task. One of these should be a person familiar with banking operations in general and the other should have familiarity with banking as carried on in that part of the world as well as with the Japanese language. Governor Robertson said that he felt Mr. Leonard, Director of the Board's Division of Bank Operations, would be an excellent person to undertake the assignment and that he would be available for such a mission for a period of approximately two months commencing about January 15. If this were arranged, Governor Robertson said that he would suggest that Mr. Leonard remain as a member of the Board's staff until the mission was completed, rather than to retire from the Board's staff as of January 1, 1959, as he had planned. This would not involve any change in present plans regarding personnel changes in the Division of Bank Operations incident to Mr. Leonard's planned retirement as of January 1, 1959. Governor Robertson's thought was that Mr. Leonard would be appointed a Special Adviser, effective January 1, and that, after taking approximately two weeks annual leave after the first of the year, he would be available in mid-January for the Okinawa mission with the understanding that the Department of Defense would pay his expenses of travel and other costs of the mission or reimburse the Board for such costs, but that Mr. Leonard would remain on the Board's payroll. The report that Mr. Leonard would submit would, of course, be that of a staff member assigned to head a mission and not a report by the Board.

11/21/58

-13-

For the second man, Governor Robertson said that he would like authority to talk with either Mr. Beise, President of Bank of America National Trust and Savings Association, San Francisco, or with New York officials of the Chase Manhattan Bank or The First National City Bank with a view to securing the services of a man from the Tokyo office of one of those banks. This would be desirable in order to have the second man on the mission familiar with banking in that part of the world and with the Japanese language. In approaching the commercial bank, Governor Robertson said, he would like to have authority to offer to pay out-of-pocket expenses of the man who might be made available, although he anticipated that any of the banks mentioned might prefer to furnish a person for this purpose without requesting reimbursement.

With respect to his proposal regarding Mr. Leonard, Governor Robertson pointed out why it would be preferable that Mr. Leonard remain as a member of the Board's staff continuously until the completion of this assignment rather than to have him retire as of January 1 and then be reemployed as a consultant to undertake the mission.

Governor Shepardson said that he felt the arrangement proposed by Governor Robertson would work out very satisfactorily.

Governor Vardaman said that in addition to the desirability of keeping Mr. Leonard as a member of the Board's staff as a means of simplifying personnel arrangements, it would be desirable that he

11/21/58

-14-

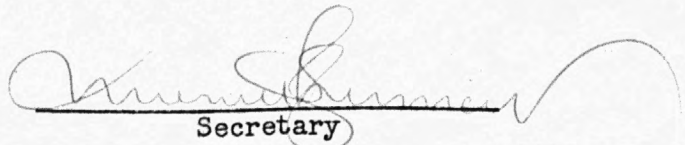
remain a member of the Board's organization for prestige reasons in carrying out such a mission.

Governor Szymczak said that he favored the arrangement as well as the proposal that Governor Robertson communicate with one of the commercial banks for the purpose of securing the services of a second member of the team, and Governor Balderston said that he also approved the proposal.

Thereupon, Governor Robertson's suggestion was approved unanimously.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a memorandum dated November 21, 1958, from Mr. Johnson, Director, Division of Personnel Administration, recommending that the Board provide influenza inoculations for its employees, on a voluntary basis, in a manner similar to the 1957 program, with the understanding that the cost was not expected to exceed the approximately \$250 expended last year.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 1
11/21/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 21, 1958

Mr. H. A. Bilby, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Bilby:

This refers to your letter of November 18, 1958, and its enclosures, concerning the proposed issue by the International Bank for Reconstruction and Development of its Fifteen Year Bonds of 1958, due December 1, 1973. In that letter you state that it is proposed to amend Schedule A of the Fiscal Agency Agreement dated as of February 6, 1958, between the International Bank and your Bank to include the bonds in question.

The Board of Governors approves of your Bank acting as Fiscal Agent in respect of the proposed issue by the International Bank of Fifteen Year Bonds of 1958, due December 1, 1973, and approves the execution and delivery by your Bank of an Agreement with the International Bank in the form or substantially in the form of Supplement No. 16 to the Fiscal Agency Agreement dated as of February 6, 1958, between your Bank and the International Bank, enclosed with your letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 2
11/21/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 21, 1958

Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Attention Mr. G. W. Garwood,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated September 16, 1958, enclosing copies of an application to organize a national bank at Dallas, Texas, signed by Mr. F. M. Holt and associates, and requesting a recommendation as to whether or not the application should be approved.

Information contained in a report of investigation of the application made by an examiner for the Federal Reserve Bank of Dallas indicates favorable findings with respect to the proposed capital structure of the bank, its earnings prospects and management. It is reported that although there does not appear to be a pressing need for new banking facilities in the area to be served, it is sufficiently developed and has potential growth adequate to support the proposed bank. The Board of Governors recommends favorable consideration of the application.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 3
11/21/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 21, 1958

Mr. L. A. Jennings,
Deputy Comptroller of the Currency,
Main Treasury Building,
Washington 25, D. C.

Dear Mr. Jennings:

Reference is made to your letter of April 22, 1958, enclosing a copy of a letter dated March 31, 1958, from National Bank Examiner Jack Baker regarding the eligibility of certain acceptances executed by Bank of America National Trust and Savings Association, San Francisco, California. You have requested comments on the Examiner's criticisms.

Banco de La Republica, Bogota, Colombia. According to the Examiner's comments, the national bank agreed to extend credit to Banco, by means of acceptances, over a period of 18 months. Section 2(c)(2) of Regulation C contemplates that dollar-exchange drafts can and will be liquidated at maturity "through the proceeds of export documentary bills or from other sources reasonably available to such foreign bank [that is, the drawer] . . . arising in the normal course of trade". Under the facts presented, it is doubtful that the drafts drawn by Banco would meet this standard, since the parties expressly agreed that each time the bills come due, the acceptance credit would have to be extended, at least in part, until the end of the 18 months' period. Consequently, the original bills would not be liquidated at maturity within the intent of the regulation.

It is noted that the arrangement provided for a minimum period of three days between payment of one set of acceptances and Banco's "request for the next set", and that "each draft [was] to be liquidated from proceeds of coffee exports". Nevertheless, the arrangement essentially is one for acceptance credit over a period in excess of the three-month limitation prescribed by the applicable statute and regulation. On the basis of the facts presented, therefore, the Board agrees with the Examiner's conclusion that these dollar-exchange drafts were not eligible for acceptance by the national bank.

Mr. L. A. Jennings

- 2 -

Parsons & Whittemore International Co., Ltd. It appears that these drafts were drawn to finance the international sale of goods that were to be paid for, in the main, more than six months after the acceptance credit was initiated, and the Examiner states that the "Acceptances [were] drawn for ninety days with provision for ninety-day renewals". These circumstances suggest that the parties contemplated that the acceptance credit based on this transaction would be outstanding for more than six months; if that was the case, the bank's acceptance of the drafts was not, in the Board's opinion, in conformity with the applicable law and regulation.

The reference to "provision for ninety-day renewals" raises the question of the propriety of agreements to renew in such cases; this subject is discussed in the ruling and opinion published in 1920 Federal Reserve Bulletin, pages 276 and 277. In that case the acceptances arose out of the storage of staples, but the principle is equally applicable to acceptances arising out of the importation or exportation of goods.

It is noted that, in his analysis of this matter, the Examiner relied in part on 1926 Federal Reserve Bulletin, page 854, which held national banks' authority to accept in connection with importations and exportations to be limited to cases where "such drafts are drawn before the underlying import or export transactions are completed". At a later date, however, the Board decided that this and similar rulings were based on an "unnecessarily strict interpretation" of the Federal Reserve Act, and that drafts arising from importation or exportation may lawfully be accepted by national banks, in some circumstances, even "after the physical importation or exportation has been completed". See 1927 Federal Reserve Bulletin, page 860.

Celulosa de Chihuahua, S. A., Mexico, and Cervecería Moctezuma, S. A., Mexico. The acceptance credits in these two situations appear to be similar in that the purpose of the first, in the Examiner's opinion, was "to furnish working capital" to the manufacturer drawing the drafts, and the second, also drawn by a manufacturer, "appears to have acquired the characteristics of a working capital loan". The Board is of the opinion that Section 13 of the Federal Reserve Act does not authorize the use of bank acceptances for the principal purpose of furnishing working capital during the process of manufacture. The continued renewals of the acceptance credits in these cases further support the Examiner's view that the transactions are not of the character contemplated

Mr. L. A. Jennings

- 3 -

by Section 13 and Regulation C as affording a proper basis for bank acceptance financing.

Dux, Inc., San Francisco. The Examiner comments upon this transaction on the apparent assumption that its legal basis, if any, is the provision of Section 13 relating to acceptances

"which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples."

It seems clear, as the Examiner points out, that the acceptance would not qualify under this so-called "storage of commodities" category, because the commodity involved (furniture) is not a readily marketable staple and also because the acceptance was not secured at the time of acceptance by a warehouse receipt or similar document of title. However, it is possible that the acceptance might qualify as one growing out of "transactions involving the importation or exportation of goods", although the facts presented are not sufficient to permit a conclusion on that question. The Examiner comments that the furniture is imported from Sweden in unassembled form, but it may be that "assembly and upholstering" were to take place during the three-months' life of the acceptance. Although a national bank may not make acceptances for the principal purpose of financing a manufacturing process (even though involving imported materials), there may be circumstances in which assembly and conditioning of imported merchandise may be only an incident to its "sale and distribution on usual credit terms of imported . . . goods into the channels of trade". (See 1927 Federal Reserve Bulletin, page 860.)

In this case, therefore, the acceptance might qualify as one growing out of transactions involving the importation of goods, if the parties actually anticipated that the imported furniture would be distributed into the channels of trade on usual credit terms within the life of the acceptance and the "assembly and upholstering" were incidental to such sale and distribution.

A/B Volvo, Sweden. The Examiner also questions whether acceptances of drafts drawn on the bank by A/B Volvo, Sweden, meet the requirements of Section 13 of the Federal Reserve Act and Regulation C. These drafts relate to shipments of automobiles from Sweden to the United States and perhaps to other countries. Cars shipped to the United States "are warehoused at ports of entry . . . pending sale to distributors." The initial ninety-day drafts, aggregating \$1,500,000, were accepted on August 6,

Mr. L. A. Jennings

- 4 -

1956, and when those drafts matured new drafts in the same aggregate amount were drawn and accepted, and this procedure continued at least until February 1958.

The export of automobiles from Sweden for sale in other countries constitutes "transactions involving importation or exportation of goods" within the meaning of Section 13 of the Federal Reserve Act. Furthermore, as pointed out in the ruling published in 1927 Federal Reserve Bulletin, page 860:

" . . . bankers' acceptances may properly be considered as growing out of transactions involving the importation or exportation of goods when drawn for the purpose of financing the sale and distribution on usual credit terms of imported or exported goods into the channels of trade, whether or not the bills are accepted after the physical importation or exportation has been completed."

In view of the foregoing, it is clear that the underlying shipments in this case can furnish a lawful basis for acceptances by national banks, and drafts in connection with such international shipments may be accepted even "after the physical importation or exportation has been completed." The information furnished by the Examiner suggests the advisability of the bank's maintaining a closer correlation between acceptances and specific data regarding the identity of cars (models and serial numbers) to which particular acceptances relate, the date of shipment and import, and the like, in order (1) to guard against duplication of financing and (2) to ascertain whether drafts drawn after arrival of the cars in the importing country are "for the purpose of financing the sale and distribution on usual credit terms of imported . . . goods into the channels of trade."

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.