

Minutes of the Board of Governors of the Federal Reserve System
 on Wednesday, January 20, 1960. The Board met in the Board Room at
 10:00 a.m.

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

Mr. Sherman, Secretary
 Mr. Young, Adviser to the Board
 Mr. Shay, Legislative Counsel
 Mr. Fauver, Assistant to the Board
 Mr. Hackley, General Counsel
 Mr. Noyes, Director, Division of Research and
 Statistics
 Mr. Farrell, Director, Division of Bank Operations
 Mr. Solomon, Director, Division of Examinations
 Mr. Dembitz, Associate Adviser, Division of
 Research and Statistics
 Mr. Furth, Associate Adviser, Division of Inter-
 national Finance
 Mr. Nelson, Assistant Director, Division of
 Examinations
 Mr. Goodman, Assistant Director, Division of
 Examinations
 Mr. Landry, Assistant to the Secretary
 Mr. Massey, Chief, Reserve Bank Operations
 Section, Division of Bank Operations

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

Item No.

Telegram to the Federal Reserve Bank of New York
 authorizing it to open and maintain an account for
 the Bank of Sudan.

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Item No.

Letter to Department of Justice replying to their letter of January 13, 1960, requesting certain information regarding the V-loan program.

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With respect to Item No. 2, a letter to the Department of Justice providing certain information regarding the V-loan program, Mr. Hackley noted that before mailing the letter it would be desirable to bring the figures up to date as well as to make minor editorial changes, and it was understood this procedure would be followed.

Mr. Massey withdrew from the meeting at this point, and Messrs. Koch, Adviser, Division of Research and Statistics, and Molony, Assistant to the Board, entered the room.

General consent under Section 9(c) of Regulation K (Items 3 and 4). In accordance with the understanding reached at yesterday's meeting of the Board, there had been prepared redrafts of letters to Chase International Investment Corporation and Chemical International Finance, Ltd., both of New York, New York, granting permission subject to specified conditions under the Board's general consent to purchase and hold stock in generally designated types of corporations pursuant to Section 9(c) of Regulation K, Corporations Doing Foreign Banking or other Foreign Financing under the Federal Reserve Act.

Mr. Goodman commented on certain changes that had been made in the letters to Chase International and Chemical International. In the discussion that followed, a question was raised as to the justification for the restriction imposed by the Board in each instance that "the

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investment in any such foreign corporation shall not include more than 49 per cent of its voting shares or otherwise qualify the [American corporation] to designate a majority of the foreign corporation's board of directors or similar management group." Speaking to this point, Mr. Furth observed that certain foreign nations impose a restriction of this kind upon foreign investment in their countries and that even in countries with no such provision there was a preference, for public relations reasons, that the figure should not exceed 49 per cent.

Mr. Solomon pointed out that the applicants could return to the Board for approval of investment beyond this figure if conditions should warrant it.

The discussion then turned to the question of the stipulation contained in each letter that the authorization to Chase and Chemical to purchase stock of foreign corporations would terminate after December 31, 1961. During this discussion, Governor Szymczak recalled that when Regulation K was revised effective January 15, 1957, the United States Department of State had inquired of the Board whether in its opinion legislation on the question of investment abroad by American corporations was needed. It was his view that the Board should proceed to study this question in view of the greater attention currently being focused on the international economy because of the adverse balance of payments of this country.

Governor Mills remarked that this morning's discussion had not served to alter the opinion that he had expressed at yesterday's meeting

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that it would be inadvisable for the Board to grant the general consent requested in the applications before it. He added that the letters as redrafted raised more questions than they answered in their attempts to spell out in detail the conditions under which the Board authorized the purchase and holding of stock in generally designated types of corporations as requested by the two applicant companies.

Approval was then given, with Governor Mills dissenting and Governor King abstaining, to letters to Chase International Investment Corporation and Chemical International Finance, Ltd., both of New York, New York, granting permission subject to specified conditions under the Board's general consent to purchase and hold stock in generally designated types of corporations under Section 9(c) of Regulation K. Copies of these letters, to be transmitted through the Federal Reserve Bank of New York, are attached as Items 3 and 4.

Mr. Furth withdrew from the meeting at this point.

First State Bank, Abilene, Texas--investment in bank premises (Item No. 5). Pursuant to the understanding reached at the Board meeting on January 13, 1960, the file in the case of the application of The First State Bank, Abilene, Texas, which had requested permission to invest in bank premises in an amount in excess of the capital stock of the Bank as provided for by Section 24A of the Federal Reserve Act, had been circulated to members of the Board.

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Mr. Solomon reviewed the facts of the case, indicating that the doubts that the Division of Examinations had had initially as to the advisability of acceding to this request had been dissipated by the complete report subsequently submitted by the Dallas Reserve Bank on the basis of a field examination made in connection with the proposed building project. He called particular attention to the capital position of the applicant bank, amounting in November 1959, to about 90 per cent of indicated desirable capital as calculated under the Board's analysis form. He observed further that half of the cost of the new bank premises, amounting to \$1 million in total, was to be financed through the issuance by the bank of additional capital stock in the amount of about \$470,000. Mr. Solomon also commented on the projected revenues from the building under various levels of occupancy of the top three stories that were to be rented and the cost to the bank of obtaining needed banking quarters. In this connection, he noted that realtors in Abilene had informed the Dallas Reserve Bank that a 75 per cent occupancy rate was "easily obtainable." At this rate, he said, net monthly cost to the bank would be less than 10¢ per month per square foot constituting a low occupancy cost and at the same time providing for satisfactorily rapid establishment of equity in the property. His report also indicated that on the most conservative occupancy projections, the bank apparently would easily be able to carry the building, and that considering the generally favorable economic outlook for Abilene the project seemed feasible to the

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bank management, the Federal Reserve Bank of Dallas, and to the Division of Examinations. The bank, which was one of the smaller banks in Abilene, was growing and badly needed better space, and accordingly the Division of Examinations believed that the request for investment deserved approval. In Mr. Solomon's opinion, disapproval of the request would represent a very severe action.

Governor Shepardson commented that the business environment in Abilene was good, being firmly based on a relatively stable oil industry, and that the prospects seemed good for a high-occupancy rate in the space which the First State Bank intended to rent. As he saw it, the additional information disclosed in the detailed report transmitted to the Board on December 29, 1959, by the Dallas Bank in this case made the request seem reasonable.

Governor Mills asked how the investment in the proposed new bank building could be set up on the bank's books to conform to proper accounting principles, since the proposed arrangement calling for the bank's borrowing \$500,000 from a subsidiary on a mortgage in effect left the bank with a leasehold on the new building that it would be renting from the subsidiary.

Mr. Solomon replied that the bank would have full title to the new building subject to the mortgage lien, but that it would not assume liability for the mortgage.

Governor Robertson stated that this seemed to be a distinction without a difference. It was his understanding that the bank would

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ultimately be putting up the whole \$1 million planned to be spent on the new building, since in addition to investing \$470,000 more of its own capital it would be required under the mortgage to repay the \$500,000 lent to it by its subsidiary. He said further that this fact should be taken into account when the capital ratios were computed and he expressed the belief that when Congress established the general rule that investment by a bank in its premises should not exceed 50 per cent of capital and 50 per cent of surplus, it did so to prevent the sort of arrangement contemplated in the instant proposal. Despite these considerations, he was prepared to go along with the recommendation of the Division of Examinations which was based upon a thorough analysis of the problem.

Governor Balderston also indicated that he would approve the application but with reluctance because of his view that it was dangerous for a bank to go into the real estate business.

Unanimous approval was then given to a letter to The First State Bank, Abilene, Texas, approving an investment in bank premises in the form of attached Item No. 5.

Messrs. Nelson and Goodman then withdrew from the meeting.

Report to Congressman Spence. Pursuant to the Board discussion on January 15, 1960, a preliminary draft of a report to Chairman Spence of the House Committee on Banking and Currency on the use of reserve requirement changes as an instrument of monetary policy had been

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prepared and distributed to the members of the Board with a covering memorandum from Mr. Noyes under date of January 15. This report had been prepared in accordance with the request made by the House Banking and Currency Committee (House Report No. 403, May 28, 1959, on S. 1120, p.6) that the Board "report to the Committee as soon as practicable concerning possible improvements in the techniques of employing reserve requirements as an anti-inflationary tool, together with recommendations for any remedial legislation that may be necessary to put these improvements into effect."

Chairman Martin suggested that discussion of the proposed report this morning be in general terms with a view to having a revised draft submitted shortly, and in the hope that a report could be placed in Chairman Spence's hands before the end of January.

During the course of comments on the position taken in the draft report, Governor Balderston said that he had talked with Messrs. Young, Noyes, and Dembitz with regard to the proposition, contained in the draft, that the Board in times of credit restraint could not and would not use an increase in reserve requirements to effectuate its policy. Since he felt that it would be preferable to say the System could but preferred not to substitute a change in reserve requirements for open market operations, he had distributed under date of January 20, 1960, suggested wording of a foreword to accompany the reserve requirement memorandum. If the other Board members agreed with the statement

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contained in this proposed foreword, it was his view that the remainder of the document could be easily amended to conform to the position taken; and he added that in periods of recession he thought it desirable for the Board to say that it could and should reduce reserve requirements.

On a question from the Chairman, Mr. Shay said that he preferred the earlier, shorter draft of the memorandum, which was more direct and less argumentative, because he was bothered by the criticism frequently heard that the writing of the Federal Reserve was too technical.

Mr. Molony referred to the fact that the original proposal that had given rise to the request for this report had come from Congressman Reuss of Wisconsin who had suggested that reserve requirement changes be substituted for open market operations in periods of credit restraint thereby reducing the drain on the taxpayers as well as the "exorbitant" profits of member banks. He noted that the memorandum took the position that this could be done but that it was not an efficient substitute for open market operations. In his opinion, this was advisable since it preserved the right of the System to use an increase in reserve requirements when it saw fit while at the same time resisting the Reuss proposal to substitute increases in reserve requirements for open market sales of securities from the System Account.

Mr. Young remarked that changes in reserve requirements as a tool of monetary policy were not well adapted to short-term uses since

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the Board of Governors, which was not an operating unit, would be forced to assume that role should the Reuss proposal be adopted. In his view, although some members of the Board might feel his position was inconsistent with recent Board endorsement of reserve requirement flexibility, this could be defended on the basis of unforeseeable changes in the banking situation over a relatively short period. However, this did not mean that changes in reserve requirements should be used to meet short-run changes in the banking situation unless there were compelling reasons for so doing. As for the difference between the shorter and longer memoranda, he noted that this consisted of the inclusion in the latter of the statement made during the hearings of the Joint Economic Committee last year in response to a request from Representative Curtis of Missouri. He concluded with the observation that if the staff could get a consensus from the Board on the direction in which to move in preparing a final draft, work could be gotten under way on a revision of the report.

Governor Mills asked whether it was intended to include a long or short version of this report in the Board's Annual Report for 1959, to which Mr. Young replied that the present thinking was to adapt the statement for inclusion in the Annual Report in substantially the same version as that submitted to the House Banking and Currency Committee except for the introductory paragraph, which would be deleted.

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Following further discussion, it was understood that the staff would undertake a revision of the report to the House Banking and Currency Committee on the use of changes in reserve requirements as an instrument of monetary policy in the light of the discussion at today's meeting.

The meeting then adjourned.



Secretary

TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
LEASED WIRE SERVICE
WASHINGTON

Item No. 1
1/20/60

January 20, 1960

SANFORD - NEW YORK

Your wire January 14. Board approves the opening and maintenance of an account on your books in the name of the Bank of Sudan subject to the usual terms and conditions upon which your Bank maintains accounts for foreign central banks and governments.

It is understood that you will in due course offer participation in this account to the other Federal Reserve Banks.

(Signed) Merritt Sherman
SHERMAN

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

Item No. 2
1/20/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



January 20, 1960

Mr. George Cochran Doub,
Assistant Attorney General,
Civil Division,
Department of Justice,
Washington 25, D. C.

Dear Mr. Doub:

This is in reply to your letter of January 13, 1960, requesting certain information regarding the V-loan program under which the Federal Reserve Banks act as fiscal agents for Government agencies that guarantee loans pursuant to section 301 of the Defense Production Act of 1950. It is understood that such information is desired because of the similarity of the V-loan program to the participation loan program of the Small Business Administration and particularly because of its possible bearing upon pending litigation in which the United States Court of Appeals for the Tenth Circuit recently held that SBA is not entitled to priority in bankruptcy proceedings against the recipient of an SBA-guaranteed loan on the ground that such priority would inure in part to the benefit of the private bank that participated in the loan.

The present V-loan program, like the similar wartime program, is designed to encourage participation by private financing institutions in the making of loans to contractors engaged in production or services deemed necessary for the national defense, especially where, because of ordinary credit rules, such financing would not be forthcoming without a certain degree of Government protection. Consequently, the agreement of the guaranteeing Government agency to share losses according to the respective interests of the guaranteeing agency and the financing institution has constituted an essential element of the V-loan program since its inception in 1942.

In response to your question as to the potential impact of the recent court decision mentioned in your letter, it seems likely that, to the extent to which it might be regarded as lessening the protection afforded financing institutions, it would impair the effective accomplishment of the purposes of the V-loan program. It is suggested, however, that in this connection you may wish to obtain the views of the Department of Defense and of the other agencies of the Government that are authorized to guarantee loans under that program.

The following information pertains to the specific questions stated in your letter:

1. Under the Defense Production Act and Executive Orders issued pursuant thereto, the Board of Governors is authorized, after consultation with the guaranteeing agencies, to prescribe forms and procedures used in connection with guaranteed loans. Section 2(A) of the Standard Form of Guarantee Agreement provides:

"(A) All losses of principal and interest on the loan, and all expenses as defined in paragraph (D) of this section, shall be shared ratably by the Guarantor and the Financing Institution in accordance with the guaranteed percentage and the unguaranteed percentage, respectively, as such losses, expenses, and percentages exist on the date of settlement between the Financing Institution and the Guarantor, regardless of whether or not any purchase has been made under this agreement."

This provision is contained in all guarantee agreements executed under the program. A copy of the standard form presently in use is enclosed for your information.

2. The reason for inclusion of the provision above quoted is, as has been indicated, to provide an effective Government guarantee sufficient to encourage participation by private institutions in the financing of defense contractors. In the early days of the wartime V-loan program, it was found desirable to include a provision for ratable sharing of losses, in addition to a commitment to purchase, in order to induce private financing institutions to retain and administer the guaranteed loan and thus avoid requests for purchases of such loans by the guaranteeing Government agencies.

3. As of December 31, 1959--

- (1) V-loans outstanding totaled 95.
- (2) Total credit available to borrowers (including the amount of loans outstanding) amounted to \$439 million, of which \$321 million was guaranteed by the various Government procurement agencies.
- (3) Loans outstanding totaled \$340 million, of which \$256 million was guaranteed.
- (4) The foregoing figures include five loans and a small portion of another loan which are guaranteed 100 per cent by the various agencies, with total available credit of \$3.7 million and outstanding loan balances of \$3.5 million.

Mr. George Cochran Doub

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- (5) By deduction, therefore, 90 agreements involving guarantees of less than 100 per cent reflected total available credit of \$435 million and outstanding loans aggregating \$337 million, of which \$252 million was guaranteed.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure.

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

Item No. 3
1/20/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 20, 1960.



Mr. Victor E. Rockhill,
Executive Vice President,
Chase International Investment Corporation,
18 Pine Street,
New York 5, New York.

Dear Mr. Rockhill:

Consideration has been given by the Board of Governors to the request contained in your letter of July 28, 1959, transmitted through the Federal Reserve Bank of New York, on behalf of Chase International Investment Corporation (CIIC) and Arcturus Investment & Development, Ltd. (AID), Montreal, Canada, your wholly owned subsidiary, for the Board's general consent to purchase and hold stock in generally designated types of corporations.

It is understood that, subsequent to the filing of the application, informal discussions have been held between officers of the Federal Reserve Bank of New York and of your Corporation, with respect to modifying the percentages stated in paragraphs numbered (2) and (3) on pages 2 and 3 of your letter, and that the modified program would be acceptable to your Corporation. In accordance with your request as modified, in the light of the reasons presented, on the basis of the information set forth on page 2 of your letter as to investment policies to be pursued by CIIC and AID, and with the understanding that the aggregate of equity investments of CIIC and AID shall not exceed 50 per cent of their consolidated capital and surplus, the Board grants its general consent, for the purposes of the first sentence of Section 9(c) of Regulation K, to CIIC and AID to purchase and to hold shares of stock of any foreign corporation, provided the aggregate investment in any one foreign corporation (and its subsidiaries on a combined basis) shall not exceed 5 per cent of the capital and surplus of CIIC, subject to the following conditions:

- (1) This authorization shall be applicable only to investments made on or before December 31, 1961, and the Board of Governors shall be informed promptly in writing, through the Federal Reserve Bank of New York, when any such investment is made, together with pertinent details regarding such investments, and the Board of Governors shall be furnished within thirty days after acquisition:

Mr. Victor E. Rockhill

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- (a) a balance sheet of the corporation whose stock has been acquired, showing the financial position of the corporation as of a recent date, together with an income statement for the preceding fiscal period; (b) a brief description of the business of the corporation; (c) a list of officers and directors, with addresses and principal business affiliations; (d) a description of the stock acquired; (e) information concerning the rights and privileges of the various classes of stock of the corporation outstanding; (f) a list showing each stockholder holding 5 per cent or more of any class of stock of such corporation; and (g) a brief summary of any loan or credit transaction with the corporation in connection with which the stock was acquired. If the Board of Governors determines that an investment is contrary to the investment program of CIIC and AID, as modified by this letter, or is otherwise objectionable to the Board of Governors, CIIC, or AID as the case may be, shall take the necessary steps to divest itself of such investment, upon notice to that effect and within such time as the Board may specify.
- (2) CIIC and AID shall each carry on its business in accordance with sound financial policies, including, among others, (a) appropriate diversification of its loan and investment portfolios so as to avoid undue concentrations in loans to, and investments in, individual enterprises, industries, or otherwise, and (b) proper regard to the relationship between its assets and the maturities of its obligations so as to give reasonable assurance that the corporation will be in a position to pay its obligations as they mature.
- (3) CIIC and AID shall each be expected to dispose of its holdings of stock of such foreign corporation, as promptly as practicable, in the event that such foreign corporation should at any time (a) engage in the business of issuing, underwriting, selling or distributing securities; (b) engage in the general business of buying or selling goods, wares, merchandise, or commodities in the United States or transact any business in the United States except such as is incidental to its international or foreign business; or (c) conduct its operations in a manner inconsistent with Section 25 (a) of the Federal Reserve Act or regulations thereunder.
- (4) Such investments shall not be made in the shares of financial corporations or holding companies.
- (5) The investment in any such foreign corporation shall not include more than 49 per cent of its voting shares or otherwise qualify CIIC or AID to designate a majority of the foreign corporation's board of directors or similar management group.

Mr. Victor E. Rockhill

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- (6) The aggregate equity investment (at cost) in foreign corporations engaged in the same business (i.e. the manufacture or mining of similar products or the carrying on of similar activities by similar means) shall not exceed 25 per cent of CIIC's capital and surplus.
- (7) The aggregate investment in all foreign corporations doing business in any one country, colony, possession or dependency shall not exceed 25 per cent of CIIC's capital and surplus.

It is further provided that the acquisition of any such shares shall be accomplished by negotiations with the foreign corporation concerned and no such shares shall be acquired in the open market.

The Board believes that AID should not be permitted to make investments in, and loans to, any one person, as defined in Section 2(g) of Regulation K, in amounts which, combined with those to such person by CIIC, would be in excess of that permitted to CIIC. Accordingly, the Board would regard the limitations on CIIC as applicable to the investments (including loans) of CIIC and AID on a combined basis.

With respect to the exercise of options to acquire stocks subsequent to the termination date (December 31, 1961) of the general consent, it would be the view of the Board that any options to acquire stocks subsequent to such expiry date should not be exercised unless specifically approved by the Board or permitted under a then effective general consent.

The right is reserved to terminate this general consent upon ninety days' written notice to your Corporation.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 4
1/20/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 20, 1960.



Mr. Amos B. Foy,
Executive Vice President,
Chemical International Finance, Ltd.,
165 Broadway,
New York 15, New York.

Dear Mr. Foy:

Consideration has been given by the Board of Governors to the request contained in your letter of September 10, 1959 (as modified by Mr. Beam's letter of October 5, 1959, and supplemented by Mr. Jordan's letter of October 5, 1959), transmitted through the Federal Reserve Bank of New York, on behalf of Chemical International Finance, Ltd. (CIF) and Chemical Overseas Finance Corporation (COFC), a wholly owned subsidiary, for the Board's general consent to purchase and hold stock in generally designated types of corporations.

It is understood that, subsequent to the filing of the application, informal discussions have been held between officers of the Federal Reserve Bank of New York and CIF, with respect to modifying the proposed investment program, among other things, to provide that the aggregate of equity investments of CIF and COFC shall not exceed 50 per cent of their consolidated capital and surplus, and it is understood that the modified program would be acceptable to CIF. In accordance with your request as modified, in the light of the reasons presented, and on the basis of the information set forth in your letters as to investment policies to be pursued by CIF and COFC, the Board grants its general consent, for the purposes of the first sentence of Section 9(c) of Regulation K, to CIF and COFC to purchase and to hold shares of stock of any foreign corporation, provided the aggregate investment in any one foreign corporation (and its subsidiaries on a combined basis) shall not exceed 5 per cent of the capital and surplus of CIF, subject to the following conditions:

- (1) This authorization shall be applicable only to investments made on or before December 31, 1961, and the Board of Governors shall be informed promptly in writing, through the Federal Reserve Bank of New York, when any such investment is made, together with pertinent details regarding such investments, and the Board of Governors shall be furnished within thirty days after

acquisition: (a) a balance sheet of the corporation whose stock has been acquired, showing the financial position of the corporation as of a recent date, together with an income statement for the preceding fiscal period; (b) a brief description of the business of the corporation; (c) a list of officers and directors, with addresses and principal business affiliations; (d) a description of the stock acquired; (e) information concerning the rights and privileges of the various classes of stock of the corporation outstanding; (f) a list showing each stockholder holding 5 per cent or more of any class of stock of such corporation; and (g) a brief summary of any loan or credit transaction with the corporation in connection with which the stock was acquired. If the Board of Governors determines that an investment is contrary to the investment program of CIF and COFC, as modified by this letter, or is otherwise objectionable to the Board of Governors, CIF, or COFC as the case may be, shall take the necessary steps to divest itself of such investment, upon notice to that effect and within such time as the Board may specify.

- (2) CIF and COFC shall each carry on its business in accordance with sound financial policies, including, among others, (a) appropriate diversification of its loan and investment portfolios so as to avoid undue concentrations in loans to, and investments in, individual enterprises, industries, or otherwise, and (b) proper regard to the relationship between its assets and the maturities of its obligations so as to give reasonable assurance that the corporation will be in a position to pay its obligations as they mature.
- (3) CIF and COFC shall each be expected to dispose of its holdings of stock of such foreign corporation, as promptly as practicable, in the event that such foreign corporation should at any time (a) engage in the business of issuing, underwriting, selling or distributing securities; (b) engage in the general business of buying or selling goods, wares, merchandise, or commodities in the United States or transact any business in the United States except such as is incidental to its international or foreign business; or (c) conduct its operations in a manner inconsistent with Section 25(a) of the Federal Reserve Act or regulations thereunder.
- (4) Such investments shall not be made in the shares of financial corporations or holding companies.
- (5) The investment in any such foreign corporation shall not include more than 49 per cent of its voting shares or otherwise qualify CIF or COFC to designate a majority of the foreign corporation's board of directors or similar management group.

Chemical International Finance, Ltd.

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- (6) The aggregate equity investment (at cost) in foreign corporations engaged in the same business (i.e., the manufacture or mining of similar products or the carrying on of similar activities by similar means) shall not exceed 25 per cent of CIF's capital and surplus.
- (7) The aggregate investment in all foreign corporations doing business in any one country, colony, possession or dependency shall not exceed 25 per cent of CIF's capital and surplus.

It is further provided that the acquisition of any such shares shall be accomplished by negotiations with the foreign corporation concerned and no such shares shall be acquired in the open market.

The Board believes that COFC should not be permitted to make investments in, and loans to, any one person (as defined in Section 2(g) of Regulation K) in amounts which, combined with those to such person by CIF, would be in excess of that permitted to CIF. Accordingly, the Board would regard the limitations on CIF as applicable to the investments (including loans) of CIF and COFC on a combined basis.

With respect to the comments in Mr. Jordan's letter of October 5, 1959, regarding the exercise of options to acquire stocks subsequent to the termination date (December 31, 1961) of the general consent, it would be the view of the Board that any options to acquire stocks subsequent to such expiry date should not be exercised unless specifically approved by the Board or permitted under a then effective general consent.

The right is reserved to terminate this general consent upon ninety days' written notice to CIF.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 5
1/20/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



January 20, 1960

Board of Directors,
The First State Bank,
Abilene, Texas.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Dallas, the Board of Governors approves, under the provisions of Section 24A of the Federal Reserve Act, an investment of \$1,063,400 in banking premises by The First State Bank, Abilene, Texas, which amount includes \$325,800 initially expended in the acquisition of certain lots, the cost of architect's fees, and the contemplated construction costs of the building.

This approval is given provided the capital structure of the bank is increased by not less than \$468,750 through the sale of additional common stock prior to completion of construction of the building; that at least \$500,000 of the cost will be financed through a loan from outside sources on which the bank will not be liable and that not more than \$500,000 of the cost of these premises will be capitalized on the books of the bank.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.