Minutes for August 24, 1960

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, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin
Gov. Szymczak
Gov. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson
Gov. King
Minutes of the Board of Governors of the Federal Reserve System on Wednesday, August 24, 1960. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
        Mr. Szymczak
        Mr. Robertson
        Mr. Shepardson
        Mr. Kenyon, Assistant Secretary
        Miss Carmichael, Assistant Secretary
        Mr. Young, Adviser to the Board
        Mr. Molony, Assistant to the Board
        Mr. Fauver, Assistant to the Board
        Mr. Hackley, General Counsel
        Mr. Farrell, Director, Division of Bank Operations
        Mr. Solomon, Director, Division of Examinations
        Mr. Masters, Associate Director, Division of Examinations
        Mr. Hostrup, Assistant Director, Division of Examinations
        Mr. Nelson, Assistant Director, Division of Examinations
        Mr. Goodman, Assistant Director, Division of Examinations
        Mr. Hooff, Assistant Counsel
        Mr. McClelland, Supervisory Review Examiner, Division of Examinations
        Mr. Poundstone, Federal Reserve Examiner, Division of Examinations
        Mr. Potter, Legal Assistant
        Mr. Smith, Legal Assistant

Announcements regarding bank mergers. With reference to the discussion at the Board meeting on August 11, 1960, Mr. Molony raised a question as to the procedure to be followed in announcing Board actions involving proposed bank mergers. He indicated that consideration had been given to furnishing this type of information as a supplement to the weekly release on changes in the banking structure (K.3). It had been planned

Withdraw from meeting at point indicated in minutes.
that the first such supplement would be issued yesterday and that it would contain information on all decisions of the Board through the end of last week under the new bank merger legislation. However, because of the Board's review on that day of the action taken the week before in disapproving the application of Citizens Fidelity Bank and Trust Company to merge with the Bank of Louisville, the release had been held up.

A lengthy discussion followed with regard to the timing of press releases covering Board actions, during which Mr. Molony pointed out that if there had been a press release yesterday that included advice of the application of Citizens Fidelity, some of the morning papers might have carried the story. This would not have provided time for the applicant to receive a letter indicating that the Board had not changed the decision made on August 18.

Question was raised whether the meeting yesterday with the Chairman of the Board of Citizens Fidelity would be considered a rehearing in the legal sense, and Mr. Hackley replied in the negative. An opportunity had been afforded Mr. Miller to present his views to the Board, but the official action was taken on August 18. If a different decision had been made on August 23, there would have been two official actions.

Governor Robertson expressed the opinion that it would be appropriate for the release, including the decision on the Louisville merger, to be issued tomorrow, which would provide an opportunity for Mr. Miller to receive...
advice that the Board's decision of August 18 had not been changed. He felt that releases containing advice of Board actions should be timed in such a way as to assure the most equitable treatment to the various segments of the press. Also, he was of the opinion that every action taken on mergers should be included in a press release. In the Citizens Fidelity case, action was taken on August 18, and the information released to the press should so indicate. Then, if the Board had decided to reverse its decision, that information should also have been released so as to provide a complete record.

Governor Balderston commented that, while applying banks must publicize their intention to merge, it might be convenient for financial writers if the K.3 release also covered the receipt of applications at the Board.

During a discussion of this point, question was raised as to whether there was not a possibility that announcement of the receipt of an application might be released on some occasions before the applicant bank had published its notice of intention to merge, and it appeared that this might occur under certain circumstances. It was pointed out that at one time the Federal Deposit Insurance Corporation had encouraged applicants not to announce a proposed merger transaction until after the Corporation had had an opportunity to review the application, the thought being to avoid speculation in the shares of the banks involved. It was also pointed out that when the Board decided to announce actions on mergers, that decision
was made in light of the fact that the Federal Deposit Insurance Corporation and the Comptroller of the Currency had indicated their intention to follow such a procedure. There might be some reason, it was suggested, to check with those agencies in order to determine whether announcement by the Board of the receipt of merger applications would in any way be of concern to them.

Governor Robertson then suggested that Mr. Solomon advise the Comptroller's Office and the Federal Deposit Insurance Corporation that the Board planned to announce receipt of applications to merge and that he bring the matter back to the Board if those agencies should make a strong case against following such a procedure.

No objection to Governor Robertson's suggestion was indicated by the other members of the Board.

At this point Mr. Molony inquired whether it was the wish of the Board that the initial announcement of Board actions under the new merger legislation be issued tomorrow as a supplement to the K.3 release, with additional releases on a regular basis, and the response was in the affirmative.

In further discussion, however, Governor Shepardson pointed out that the K.3 release is a statistical release, issued weekly, and that information contained therein would have lost much of its value from a news standpoint. To the extent that merger actions might be taken that were of general news interest, he questioned whether a routine statistical report would be an appropriate vehicle for announcing them.
Additional comments then were made regarding the nature of the IC.3 release, following which Mr. Molony commented that the release, ordinarily issued in the early part of the week, would carry information as of the end of the preceding week, and there would be time to advise applicants of any actions taken before the announcement was made. Generally, he said, actions of this type are of interest principally to the banking profession, but if special circumstances should be involved the matter could be brought to the Board's attention. Likewise, if an inquiry should be received by the staff regarding a particular transaction, that could be brought to the Board's attention.

Governor Robertson then suggested that a policy be adopted providing that when the Board has taken an action and sufficient time has elapsed for the applicant to be advised, the staff would be free to handle any inquiry in its discretion without bringing the matter to the Board's attention, even though the periodic release covering the action in question had not yet been issued. As to inquiries regarding the receipt of merger applications, he referred to his earlier suggestion that Mr. Solomon advise the other Federal bank supervisory agencies of the Board's intent to announce the receipt of such applications, with the understanding that the matter would be brought back to the Board if any strong objection to such a procedure was expressed.

Governor Balderston supplemented Governor Robertson's comments by saying that the Board was not spelling out at this time the exact details
of the procedure to be followed and that those details were being left to the staff to work out.

Governor Shepardson then made a further comment concerning the distinction in news value between notice of the receipt of applications, which he felt could appropriately be handled on a weekly basis, and advice of actions taken on bank merger applications.

After further discussion of this point, Governor Robertson commented that what the Board was doing today was to prescribe a general operation without endeavoring to lay down an absolute rule. The staff should come back to the Board with any suggestions, but in the meantime, once the Board had taken action on a merger application the staff could consider that action as public information and could act in its discretion without coming back to the Board.

There was no indication of dissent from the statement made by Governor Robertson.

Messrs. Young and Molony then withdrew from the meeting.

Investment in bank premises (Item No. 1). Pursuant to the favorable staff recommendation contained in a file that had been circulated to the Board, unanimous approval was given to a letter to Farmers' State Bank of Yorkville, Yorkville, Illinois, approving an investment in bank premises. A copy is attached as Item No. 1.

Report on competitive factors (Chicago, Illinois). A draft of report to the Comptroller of the Currency on the competitive factors
involved in the proposed merger of Central National Bank in Chicago, Chicago, Illinois, and Kaspar-American State Bank, Chicago, Illinois, had been circulated to the members of the Board. The report concluded as follows:

The proposed merger will eliminate a small bank with declining business in a depressed area. It is reported to be an unaggressive competitor and the lessening of competition would not materially affect the area.

No objection being indicated, the report was approved unanimously for transmittal to the Comptroller.


A draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The Citizens National Bank of Hollidaysburg, Hollidaysburg, Pennsylvania, into and with The First National Bank of Altoona, Altoona, Pennsylvania, had been distributed under date of August 15, 1960. The report concluded as follows:

While the proposed transaction would eliminate one small competitor in the area, it appears that competition would be somewhat intensified in Hollidaysburg. It would not seem to materially affect the competitive situation in Altoona.

No objection being indicated, the report was approved unanimously for transmittal to the Comptroller.

Shares of nonbanking organizations held by National Shawmut (Item No. 2). There had been distributed a memorandum dated August 19, 1960, from the Legal Division presenting a question as to whether The National Shawmut Bank of Boston was required to divest itself of shares
of Loyal Protective Life Insurance Company and Nevada-Massachusetts Company in accordance with the provisions of section 4 of the Bank Holding Company Act of 1956. The bank, also a registered bank holding company, owned shares in these two companies at the time the Bank Holding Company Act was enacted, the shares having been acquired in satisfaction of debts previously contracted. It had applied annually since 1958 for extensions of the period referred to in section 4(a)(2) for divestment of shares of nonbanking organizations, but at no time did the bank mention the possible application of either section 4(c)(4) or section 4(c)(2), which specify circumstances in which the prohibitions of section 4 against ownership of shares of nonbanking organizations by a bank holding company shall not apply. Since the period for divestment of shares in nonbanking organizations cannot, under the statute, be extended beyond May 9, 1961, the Legal Division was currently reviewing all nonbanking interests of registered bank holding companies, and the review of the situation in respect to The National Shawmut Bank led to the conclusion that the correct application of section 4 was as follows:

1. Section 4(c)(2) applies only to shares acquired in satisfaction of debts previously contracted after May 9, 1956, and therefore does not apply to the shares in question.

2. The shares in question were lawfully acquired prior to May 9, 1956, by a bank which is also a bank holding company, so that the shares are exempted from the general prohibitions of section 4 by the terms of section 4(c)(4).
It was recommended in the memorandum that, since National Shawmut Bank had already begun to dispose of the shares in question and presumably was attempting to dispose of the balance in excess of the amount permitted to be retained under section 4(c)(5), the bank be notified that in the opinion of the Board the shares of the two companies, acquired prior to May 9, 1956, were exempt from the general prohibitions of section 4 of the Bank Holding Company Act under the terms of section 4(c)(4). A draft of letter to the Federal Reserve Bank of Boston was attached to the memorandum.

After Mr. Hackley had commented on the memorandum, Governor Robertson noted that although the law does not require a bank to dispose of stock acquired in satisfaction of debts previously contracted, it is a well-established supervisory principle that such shares must be disposed of within a reasonable time. This raised a question as to the possible reaction of the Comptroller of the Currency to the position taken in the proposed letter to the Federal Reserve Bank of Boston. If the Board were to take a position that National Shawmut could hold the shares in question indefinitely, the Comptroller's Office might be put in a difficult position if it should wish to press for disposition of the shares.

In order to take care of this point, Mr. Hackley suggested that it might be desirable to add a statement to the letter to the effect that, although section 4 of the Bank Holding Company Act would not apply to the
stock owned by National Shawmut Bank in the two companies, this did not mean that the bank was relieved of any requirement the supervisory authorities might make for disposition of the shares.

Governor Robertson then suggested that the proposed letter, as so amended, be discussed with the Office of the Comptroller of the Currency before it was sent. Agreement was expressed with this suggestion, and it was understood that, unless there was objection on the part of the Comptroller of the Currency, the letter to the Federal Reserve Bank of Boston would be sent.

Secretary's Note: Discussion with the Office of the Comptroller of the Currency having disclosed that there would be no objection to the sending of a letter to the Federal Reserve Bank of Boston in the form contemplated, the letter was sent. A copy is attached as Item No. 2.

During the foregoing discussion Mr. Sammons, Associate Adviser, Division of International Finance, entered the room and Mr. Fauver withdrew. At its conclusion Messrs. Hostrup and Smith withdrew.

Proposed amendment of Regulation F (Item No. 3). The Trust Division of the American Bankers Association in a letter dated April 28, 1960, expressed an interest in proposing an amendment to section 584 of the Internal Revenue Code in order to broaden the capacities specified in the Code so as to include accounts for which a bank is acting as agent for a charitable, educational, religious, or similar organization exempt from income tax under Federal law. Identical specification as to capacities...
eligible for common trust fund participation is contained in section 17

In a memorandum dated July 21, 1960, which had been circulated,
Mr. Masters pointed out that the Trust Division was of the opinion that
the Internal Revenue Service would attach considerable weight to the
supervisory and regulatory experience of the Board in the field of common
trust fund administration. Therefore, prior to approaching the Internal
Revenue Service, the Trust Division was asking an expression from the
Board as to whether it would or would not regard favorably the liberalizing
feature proposed.

After a review of the legislative history of the common trust fund
statute and Regulation F, the special and restrictive purposes of common
trust funds, and their applicability in practice, it was recommended in
the memorandum that the Trust Division be advised that the Board would
have no objection to appropriate amendment of section 17(a) of Regulation
F if and when relevant provisions of the tax laws were amended so as to
permit the inclusion of certain agency funds without destroying the tax
exemption of common trust funds in which they participate. A draft of
letter reflecting this recommendation was submitted with the memorandum.

In commenting on the proposal, Mr. Masters concluded with the
statement that in the opinion of the Division of Examinations the suggested
broadening of types of accounts permitted to participate in a common trust
fund would be consistent with the purposes of Regulation F.
During the discussion that followed, question was raised whether the Comptroller of the Currency would have any objection to the proposed amendment. Accordingly, Governor Robertson suggested that Mr. Masters get in touch with the Comptroller's Office and discuss the reply the Board planned to send to the American Bankers Association.

The proposed letter was then approved unanimously, subject to the understanding that it would be sent unless some objection should be indicated by the Comptroller of the Currency.

Secretary's Note: Mr. Masters having ascertained that there would be no objection on the part of the Comptroller's Office, the letter was sent. A copy is attached as Item No. 3.

Report on foreign economic activities. Pursuant to the provisions of section 604 of the Mutual Security Act of 1960, the Bureau of the Budget was making a complete survey of the foreign economic activities of the respective agencies of the Government. In that connection, a report had been requested from the Board, and copies of a draft of such a report had been distributed prior to this meeting.

Following comments by Mr. Sammons, the report was approved unanimously for transmittal to the Bureau of the Budget.

Foreign assignment of Reserve Bank examiner (Item No. 4). There had been distributed a memorandum dated August 23, 1960, from the Division of International Finance regarding a request expected to be received by the New York Reserve Bank for the services of Harvey Fleetwood, Senior Examiner, to
assist a special commission composed of representatives of the Central Bank of Venezuela and the Superintendency of Banks in evaluating the assets of certain banks in Venezuela. The Board of Directors of the New York Reserve Bank had approved arrangements for making Mr. Fleetwood available for this assignment under the same financial arrangements applicable in other recent cases where assistance had been provided to the Central Bank of Venezuela.

A draft letter that would indicate that the Board interposed no objection to the proposed assignment for Mr. Fleetwood was submitted with the memorandum.

Following comments by Mr. Sammons on the nature of the proposed assignment, Governor Robertson observed that Mr. Fleetwood, a specialist in the examination of Edge Act corporations, was now engaged in an examination of Bank of America, New York. If that examination was not completed by the time Mr. Fleetwood had to leave for Venezuela, he assumed the Reserve Bank would arrange to have some other examiner take over for Mr. Fleetwood until the examination had been completed. This raised the question whether an adequate replacement would be available, and he suggested that Mr. Goodman talk with Vice President Crosse regarding this aspect of the matter.

The letter to the New York Reserve Bank interposing no objection to the proposed assignment of Mr. Fleetwood was then approved unanimously, with the understanding that Mr. Goodman would satisfy himself that
appropriate arrangements could be made for completion of the examination of Bank of America.

Secretary's Note: Mr. Goodman having ascertained from the New York Bank that appropriate arrangements could be made, the letter was sent. A copy is attached as Item No. 4.

Mr. Noyes, Director, Division of Research and Statistics, and Mr. Bass, Assistant Controller, entered the room at this point, and Mr. Young returned to the meeting.

Forms for use in merger applications (Item No. 5). There had been distributed copies of a memorandum dated August 22, 1960, from Mr. Solomon submitting revised forms of (1) application and (2) notice of intent to effect a merger or other transaction pursuant to section 18(c) of the Federal Deposit Insurance Act. As pointed out in the memorandum, the revised form of application (F.R. 70) had been developed through a series of meetings and extensive negotiations involving representatives of the Board, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Department of Justice. This form embodied many suggestions received from the Federal Reserve Banks in response to the Board's letter of May 11, 1960, as well as material suggested by the Department of Justice in its letter of June 1, 1960.

It was noted in the memorandum that a high degree of uniformity, both with respect to form and substance, had been attained in the application forms to be used by the Board, the Comptroller of the Currency, and the
Federal Deposit Insurance Corporation. As a primary chartering authority, however, the Comptroller of the Currency would use one form of application for a merger or consolidation and another for a purchase of assets or assumption of deposit liabilities, and in both cases would include several supplementary pages considered essential to the discharge of his responsibilities under the National Banking Act.

The form of notice of intent, required to be published pursuant to section 18(c) of the Federal Deposit Insurance Act, had also been revised following negotiations with the other bank supervisory agencies.

The memorandum indicated that upon approval by the Board the revised application and notice forms would be forwarded to the Federal Reserve Banks for immediate use by applicant banks, and that the application form would be submitted to the Bureau of the Budget for clearance. Copies of proposed letters that would transmit the forms to the Reserve Banks and the Bureau of the Budget were attached to the memorandum.

In commenting on the proposed forms, Mr. Solomon pointed out that one portion of the notice of intent to merge was not uniform so far as the three supervisory agencies were concerned. The form tentatively adopted by the Board on May 11, 1960, included a sentence which in effect invited the submission of comments on the proposed transaction from interested persons within five days after the final date of publication of the notice; the forms which the Comptroller of the Currency and the Federal Deposit Insurance Corporation planned to use would not include such an invitation,
it being the feeling of those offices that an invitation was implied and that the inclusion of language inviting anyone to submit comments would stress the point unduly. In view of the fact that the other bank supervisory agencies planned to omit this reference, and since no very important question of substance was involved, Mr. Solomon suggested that the Board might wish to consider deleting the language in question from the Federal Reserve form in the interest of uniformity.

Governor Balderston inquired why the Board should ask for clearance of the application form from the Bureau of the Budget, and Mr. Solomon stated his understanding that as a matter of policy the clearance of forms had been requested because the objectives of the Office of Statistical Standards, including consistency of approach to the use of reporting forms, were considered desirable and merited cooperation.

Governor Robertson then suggested that the final sentence of the transmittal letter be changed to read: "We will appreciate hearing from your Bureau at your earliest convenience."

Mr. Hackley commented that, as Mr. Solomon had said, the only question of substance with respect to the proposed forms involved the difference in one part of the notice of intent to merge. While it was not essential, as far as the requirements of the statute were concerned, to include an invitation to submit comments, there were at least two reasons for including such language: (1) While an invitation might be implied in the publication of the notice of intent, it was quite likely that many
persons reading such a notice would not realize that they were entitled to submit comments; (2) inclusion of an invitation to comment would provide protection to the supervisory agency by making it clear that the agency might act on the proposed merger after a five-day period following the final publication date without waiting for additional comments.

Governor Robertson expressed his approval of the proposed Federal Reserve forms, with inclusion in the notice of intent of the language regarding the submission of comments. The question of the forms to be used had been the subject of discussion at a meeting of the Standing Interagency Committee, he said, and he had argued for including that sentence because the whole purpose of the requirement for publication was to give public notice of intention to merge and thus afford an opportunity to interested parties to express their views. It was important, he thought, to have a cut-off date for filing comments. It seemed unlikely that the Board would act upon any application in five days after the end of the thirty-day publication period. Therefore, by including in the notice of intent a reference to a five-day period after date of final publication, interested parties would be given a stipulated period within which to file their views, and there would be no interference with the prompt dispatch of the Board’s work. He would not want to go along with something less than the best procedure merely for the sake of uniformity, and he did not feel that the deviation that would be involved was sufficient to warrant departing from what he considered the right position.
There followed a discussion during which questions were raised which suggested that complications might be involved in endeavoring to specify in the notice of intent a cut-off date for the submission of comments that would set forth the requirement clearly and yet not prolong unduly the period that would have to elapse before action could be taken on a merger application. Therefore, although they recognized the cogency of the reasoning expressed by Governor Robertson, the other members of the Board concluded in favor of deleting the language relating to the submission of comments.

With this deletion, the proposed forms were approved, Governor Robertson dissenting to the extent indicated for the reasons he had stated. It was understood that the proposed letter to the Presidents of the Federal Reserve Banks (attached Item No. 5) would be sent and that the application form (F.R. 70) would be sent to the Bureau of the Budget with a transmittal letter the last sentence of which would be revised in accordance with the suggestion made earlier by Governor Robertson.

Messrs. Nelson, Hooff, and McClelland then withdrew from the meeting and Mr. Fauver returned to the room.

Survey of consumer buying intentions. There had been distributed a memorandum from Mr. Noyes dated August 19, 1960, recommending (1) execution of a contract with the Bureau of the Census for $130,000 to continue the Quarterly Survey of Consumer Buying Intentions during 1961, and (2) authority to spend up to $5,000 additional in 1961 for related projects not covered
by the regular survey contract, such as obtaining duplicate sets of punch cards, computations of sampling errors, and special tabulations associated with an analysis of variance. It was also recommended that, in order to insure the availability of data on a continuing basis and to take advantage of earlier planning, both the questionnaire and the tabulation plans be continued without change in 1961.

It was pointed out in the memorandum that the proposed expenditure of $135,000 for 1961 would compare with a total of $155,000 in 1960, when it was necessary to meet planning and programming costs for the survey. The 1960 budget included an appropriation of $20,000 for preliminary planning associated with the 1961 survey; however, in view of the plan to maintain the survey unchanged, this expenditure would be unnecessary.

Mr. Noyes commented that the Bureau of the Census was hopeful that funds might be included in its budget for the fiscal year 1962 for conducting the Quarterly Survey of Consumer Buying Intentions. This would mean that there might be funds available in the last half of calendar 1961 to finance the survey. However, in view of the uncertainties both as to timing and amount, it was thought preferable to provide for financing the survey through the entire year on a contingent basis.

After discussion of the Census Bureau survey techniques and the uses planned to be made of the survey data, Governor Shepardson expressed the view that the proposals set forth in the memorandum were reasonable. In light of the uncertainty as to whether the Bureau of the Census would
obtain an appropriation for this purpose in fiscal 1962, he felt that provision for financing the survey for the entire calendar year 1961 could properly be included in the Board’s 1961 budget, with the understanding that if the Census Bureau should obtain funds for the second half of the calendar year, the Board’s contribution would be reduced proportionately.

The recommendations contained in the memorandum from Mr. Noyes were then approved unanimously.

During the foregoing discussion, Mr. Smith, Assistant Director, Division of Examinations, entered the room, and at its conclusion Messrs. Young, Noyes, and Bass withdrew.

Examination of International Banking Corporation (Items 6, 7, and 8). There had been distributed two memoranda dated August 12, 1960, from the Division of Examinations regarding the following violations disclosed in the report of the examination of International Banking Corporation, New York, New York, made as of October 5, 1959:

1. Investment in stock of County Trust Company, White Plains, New York, which had been the subject of previous consideration. A proposed letter to the Corporation would request that the Board be informed within 60 days as to the Corporation’s plans for the disposition of all shares held of County Trust Company.

2. Participations aggregating $4,000,000 held by The Bank of Monrovia in four unsecured loans (sold by The First National City Bank of New York), each in excess of $700,000, which appeared to be in violation of section 10(a) of Regulation K. International Banking Corporation had requested that the Board resolve by ruling that, notwithstanding stock ownership of The Bank of Monrovia and The First National
City Bank of New York (South Africa) Ltd., by International Banking Corporation, these foreign corporations "are to be governed, in the conduct of their lending operations abroad, by the applicable foreign laws and customs." The proposed letter would deny the request of International Banking Corporation and ask that International Banking Corporation arrange to have The Bank of Monrovia reduce each excess loan to within the limits of $700,000, or otherwise eliminate the violations, and inform the Board within 60 days as to the actions taken.

Also submitted with the memoranda were proposed letters to The Chase Manhattan Bank and Bank of America, New York, replying to their inquiries regarding the applicability to an overseas subsidiary of the limitation (10 per cent of capital and surplus) placed on loans of banking corporations organized under section 25(a) of the Federal Reserve Act.

With respect to the first violation disclosed by the examination of International Banking Corporation, Mr. Goodman noted that in a letter dated January 19, 1960, the Corporation had reaffirmed its intention to dispose of the County Trust Company stock, but as yet this had not been accomplished.

After discussion, during which it was noted that under the New York Omnibus Banking Law enacted earlier this year it might be possible to form a bank holding company to acquire the stock of County Trust Company, the unanimous view was expressed that International Banking Corporation should be requested to advise the Board within 60 days of its plans for disposition of the County Trust Company shares.
With respect to the second item, Mr. Goodman commented that it involved a question much larger than the specific violations noted in the examination report. As to the actual cases, the Bank of Monrovia, located in Liberia and a subsidiary of International Banking Corporation, whose capital and surplus amounted to $7,000,000, had participations aggregating $4,000,000 in four loans (sold to it by The First National City Bank of New York) each in excess of $700,000, and therefore in violation of section 10(a) of Regulation K to the extent of the excess. International Banking Corporation had requested, in a letter dated December 7, 1959, that the Board take the position that foreign banking subsidiaries of Edge Act corporations be permitted to be governed in the conduct of their lending operations by applicable laws and customs of the country where located, and The Chase Manhattan Bank and Bank of America, New York, had supported this argument. However, after consideration of the information and views submitted and discussion with representatives of International Banking Corporation, it was recommended that the Board maintain its present position, as set forth in section 10(a) of Regulation K.

Governor Szymczak agreed that under the provisions of the Regulation, as they now stood, the Board was required to take the position that the excess loans of Bank of Monrovia, and other such excess loans, were in violation of the Regulation. He felt that it was quite certain that the question would be coming back to the Board for further consideration. In this connection, he pointed out that Bank of Monrovia was conducting business
in various parts of the world and that the excess loans now under consideration were made to borrowers outside of Liberia. Accordingly, the economy of Liberia was in no way affected by these particular loans.

Governor Robertson referred to a memorandum dated April 29, 1960, from Mr. Furth, Associate Adviser, Division of International Finance, regarding the problem involved in the excess loans of Bank of Monrovia and said that he regarded the reasoning therein as unanswerable. The proposed letter to International Banking Corporation was consistent with the reasoning in Mr. Furth's memorandum, and he would support the position taken in it.

Governor Shepardson commented that at the moment this was perhaps the only course open to the Board. Nevertheless, he felt that there were valid arguments on the other side. One might wonder why, in the turmoil of the world today, American firms would want to expose their funds in certain foreign areas. Aside from that, however, it seemed to him that the major concern, as far as foreign development programs were concerned, should be along the lines of facilitating the operations of American firms, to the extent that they deemed it appropriate to take the risks involved, to the end of putting much of the foreign development program on a sound commercial basis. Ways should be sought, with whatever safeguards might be deemed necessary, to promote the interest of American private enterprise in carrying on foreign development projects on a commercial basis;
certainly, at least, any unnecessary impediments should be avoided. Governor Szymczak, he noted, had said that the problem of loan limitations probably would be coming back to the Board. If it did, he felt that the Board would be in a poor position if it were simply to sit back and say "this is the regulation". Instead, the problem should be studied carefully.

Governor Szymczak then commented regarding the interest of those engaged in foreign financing in safeguarding their funds, which raised the question why the Federal Reserve should set up restrictions that the parties concerned did not consider justified, particularly in view of the general policy of the Government favoring participation in foreign development projects by private enterprise to the fullest possible extent. On the other hand, there was the question of how far to go in liberalizing the present regulations, and whether there should be exceptions in individual cases or general exceptions.

In reply to questions by Governor Shepardson concerning the fundamental purpose of the present limitations, Mr. Goodman commented that although there is no provision in section 25(a) of the Federal Reserve Act requiring a loan limitation, it is implicit in that section that the Board will exercise powers of regulation. Further, section 10 of Regulation K provides a number of exceptions to the general loan limitation of 10 per cent of capital and surplus; in some cases loans can be made far in excess of the 10 per cent limitation.
Mr. Goodman also referred to administrative controls exercised by First National City Bank over the limits within which officers of the organization are authorized to make loans. It was his conclusion that although International Banking Corporation might have a point in principle, in practice there were not many occasions where the loan limitations of Regulation K would be seriously restrictive.

During further discussion, relating to the circumstances surrounding the loans of Bank of Monrovia that had been criticized, Governor Robertson withdrew from the meeting. Before leaving, he indicated that he would approve sending the proposed letter to International Banking Corporation, and also the proposed letters to The Chase Manhattan Bank and Bank of America.

After additional discussion of the loans in question, Governor Shepardson commented that in view of the facts that had been brought out regarding those loans he would not take exception to the proposed letter to International Banking Corporation. However, there had been enough questions raised about impediments to foreign financing that he felt the Board should be certain that it was not imposing too many impediments. In his opinion, the Board should try to find ways to facilitate rather than impede this type of operation.

Governor Balderston stated that he would favor sending the proposed letter to International Banking Corporation, but that he thought it was possible to get wedded to regulations and that such a tendency should be watched carefully.
Thereupon, the proposed letter to International Banking Corporation was approved unanimously, along with the proposed letters to The Chase Manhattan Bank and to Bank of America, New York. Copies of the letters are attached as Items 6, 7, and 8, respectively.

The meeting then adjourned.

Secretary's Notes: Pursuant to the Board's outstanding authorization, a telegram was sent on August 24, 1960, to the Federal Reserve Bank of Atlanta approving the establishment without change on August 23, 1960, of the rates on discounts and advances in its existing schedules.

Governor Shepardson today approved on behalf of the Board the following items:

Memorandum from Roland I. Robinson, Adviser, Division of Research and Statistics, dated August 23, 1960, requesting permission to teach a course in Money and Banking at a Pentagon class organized by the University of Maryland on Monday evenings beginning September 26, 1960, and ending January 30, 1961.

Letter to the Federal Reserve Bank of New York (attached Item No. 9) approving the appointment of David E. Bannister as assistant examiner.

Assistant Secretary
Board of Directors,
Farmers' State Bank of Yorkville,
Yorkville, Illinois.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an additional investment in bank premises by Farmers' State Bank of Yorkville of not to exceed $65,000 for the purpose of reconstructing and enlarging the present banking quarters.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Mr. Benjamin F. Groot, Vice President,  
Federal Reserve Bank of Boston,  
Boston 6, Massachusetts.  

Dear Mr. Groot:

In connection with the forthcoming final deadline of May 9, 1961, for divestment of nonbanking interests under section 6 of the Bank Holding Company Act of 1956, the nonbanking interests of registered bank holding companies are currently being reviewed. The Shawmut Bank of Boston has applied for and received, under section 4(a) of the Act, extensions of time through May 9, 1961, for the divestment of shares of stock of Loyal Protective Life Insurance Company and Nevada-Massachusetts Company acquired by the Bank in satisfaction of debts previously contracted, to the extent that such shares exceed the five per cent limitations of section 4(c)(5) of the Act.

Current consideration of this matter has led to the conclusion that, inasmuch as the shares appear to have been lawfully acquired prior to the date of enactment of the Bank Holding Company Act of 1956 by a bank which is a bank holding company, within the exemption of section 4(c)(4), the general prohibitions of section 4 do not apply. Accordingly, it is the opinion of the Board of Governors that The National Shawmut Bank of Boston is not required by section 4 of the Bank Holding Company Act of 1956 to divest itself of the shares in question. This interpretation of the Bank Holding Company Act does not mean, of course, that the Bank is relieved of compliance with any requirement that may be imposed by the Comptroller of the Currency as to the disposition of such shares of stock.

It will be appreciated if you will advise the Shawmut Bank of the Board's opinion in this matter.

Very truly yours,

Kenneth A. Kenyon,  
Assistant Secretary.
August 24, 1960

Mr. Hollis B. Pease, Chairman,
Committee on Common Trust Funds,
Trust Division,
American Bankers Association,
The Hanover Bank,

Dear Mr. Pease:

Reference is made to your letter and its memorandum enclosure dated April 28, in which you report the interest of your Committee in seeking amendment of Section 584, Internal Revenue Code. The amendment that would be proposed would broaden the capacities specified in the Code so as to include accounts for which a bank was acting as agent for a charitable, educational, religious or similar organization exempt from income tax under Federal law. Identical specification as to capacities eligible for common trust fund participation is contained in Section 17 of Regulation F promulgated by this Board by reference from the provisions of Section 584.

It is understood that this proposal has not yet been discussed with the Internal Revenue Service and that before taking such action it is the desire of your Committee to obtain advance consideration of the proposal by the Board of Governors so that its views, as they relate to its regulatory authority in this area, may be known.

In considering the contemplated amendment to the statute and its relevancy to and effect upon present provisions of Regulation F, a review has been made of the legislative history of the common trust fund statute and Regulation, the special and restricted purposes of common trust funds, and their applicability in practice to such purposes. Consideration has also been given to the special and restricted type of agency account specified in the proposal, its legal form, the purposes typical of its creation and use, the relationship of a trust institution to principals of agency accounts so
created, the normal duties and responsibilities of a trust institution acting as such an agent, and possible problems concerned with delegation to trust institutions of powers ordinarily lodged with independent fiduciaries. Recognition also has been given to the view expressed in the memorandum enclosed with your letter that the amendment proposal would not "let down the bars to agencies generally," and to the expressed opposition of your Committee "to the inclusion in common trust funds of agencies or other types of accounts devoid of a true fiduciary relationship."

After careful review of these various factors, the Board has concluded that accounts in which a bank would act as agent for a charitable, educational, religious or other similar organization exempt from income tax under Federal law, involve such a close relationship to the type of fiduciary accounts already authorized for participation in common trust funds that authorization of agency accounts of the specified type for investment in common trust funds would not be inconsistent with the intended purpose and use of such funds. For these reasons, the Board would interpose no objection to appropriate amendments of Section 17 of its Regulation F if and when applicable provisions of the statute were amended so as to permit the inclusion of certain agency funds without destroying the tax exemption of common trust funds in which they participate.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Mr. William H. Braun, Jr.,
Secretary,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Braun:

This is in reply to your letter of August 19, 1960, in which you stated that the Board of Directors of the Federal Reserve Bank of New York had approved arrangements for making the services of Harvey Fleetwood available to assist a Venezuelan commission in the evaluation of assets of certain Venezuelan banks. It is understood that you expect such assistance to be requested by the Central Bank of Venezuela.

This matter has been brought to the attention of the Board of Governors, which interposes no objection to the arrangements outlined in your letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Dear Sir:

Enclosed are two copies of a new form FR 70 which has been approved by the Board for use as an application for prior written consent to effect a merger or other transaction pursuant to section 18(c) of the Federal Deposit Insurance Act, and, incident thereto, to establish a branch or branches under Section 9 of the Federal Reserve Act. A supply of the forms will be sent to your Reserve Bank within a few days.

Form FR 70 is the end-product of a series of meetings and extensive negotiations between representatives of the Board, Comptroller of the Currency, Federal Deposit Insurance Corporation, and Department of Justice. It embodies material suggested for incorporation by the Office of the Attorney General, as well as suggestions received from the Federal Reserve Banks in response to the Board’s letter of May 11, 1960.

A high degree of uniformity both with respect to form and substance has been attained in the applications to be used by the Board, Comptroller of the Currency, and Federal Deposit Insurance Corporation. However, as a primary chartering authority, the Comptroller will use one form of application for a merger or consolidation and another for a purchase of assets or assumption of deposit liabilities, and in both cases will include several supplementary pages deemed essential to the discharge of his responsibilities under the National Banking Act.

All those participating in the preparation of the application recognized that it was impossible to draw up a form which would be ideally suited to each individual case. It is believed, however, that the attached form will be adequate in the high majority of cases, and that, with the assistance of the respective supervisory agencies, it can be adapted to the special circumstances of other situations as they arise.
It will be noted that Applicants are requested to furnish an original and eleven copies of the application to the Federal Reserve Bank. The Reserve Bank will retain three copies, one of which will be furnished to the State banking authorities, and forward the original and eight copies to the Board to be distributed as follows: Board—original and one copy; Comptroller of the Currency—two copies; Federal Deposit Insurance Corporation—two copies; and Department of Justice—three copies. It is anticipated that the Reserve Banks will be called upon in many cases for advice and assistance in the preparation of required schedules, exhibits, and maps. In this connection, it may be necessary also for the Reserve Banks to offer Applicants the services of their duplicating facilities to assure expeditious and reasonably uniform preparation of the required multiple copies of the application.

The form of notice of intent to merge and establish branches which must be published pursuant to section 18(c) of the Federal Deposit Insurance Act also has been revised following negotiations with the other bank supervisory agencies. Two copies of the revised notice also are enclosed.

Very truly yours,

Kenneth A. Kenyon
Assistant Secretary.
Mr. James S. Rockefeller,
Chairman of the Board,
International Banking Corporation,
55 Wall Street,

Dear Mr. Rockefeller:

Reference is made to the following:

(1) Report of examination of International Banking Corporation (IBC), New York, made as of October 5, 1959 by an examiner for the Board of Governors;

(2) Letter dated December 17, 1959 addressed to IBC by Chief Examiner John F. Pierce of the Federal Reserve Bank of New York, transmitting the report;

(3) Your letter of January 19, 1960 advising that the Examiner's comments in the report were brought to the attention of the directors at a meeting on January 19, 1960, advising as to corrective action taken, reaffirming intention to dispose of stock of County Trust Company, and advising that the directors took note of the fact that, on December 7, IBC had applied for a ruling regarding loans of The Bank of Monrovia;

(4) Letter dated December 7, 1959 from Vice President Walter B. Wriston requesting that the Board resolve by ruling that, notwithstanding stock ownership of The Bank of Monrovia and The First National City Bank of New York (South Africa) Ltd., by IBC, these foreign corporations "are to be governed, in the conduct of their lending operations abroad, by the applicable foreign laws and customs," and advising that a memorandum was being prepared with respect to the problem.
(5) Letter dated January 15, 1960 from Shearman & Sterling & Wright, attorneys for IBC, forwarding copies of a memorandum in support of the above request.

In Examiner's Comments on page 2 of the report, reference was made to the purchase by IBC of 54,625 shares of stock of County Trust Company without the approval of the Board of Governors during the period April 21, 1955 through November 18, 1955 and the acquisition of 11,770 additional shares as a result of stock dividends, total 66,395 shares. The examiner commented that "Management indicated to the examiner that the stock would be disposed of in or before June, 1960." Your letter of January 19, 1960 to Chief Examiner Pierce of the Federal Reserve Bank of New York commented, with respect to the investment in stock of County Trust Company, "the Board of Directors reaffirmed its intention to dispose of the stock, or through alternative procedures previously outlined to the Board to meet the Board's objection to its retention, as promptly as may be without detriment to the interests of the Corporation." The report of condition of IBC as of June 30, 1960 discloses that these holdings now total 69,714 shares—an increase of 3,319 shares, or 5 per cent, which it is assumed were acquired as a result of a stock dividend paid by County Trust Company on February 19, 1960. It is requested that you inform the Board of Governors, through the Federal Reserve Bank of New York, within 60 days as to your plans for the disposition of all shares held of County Trust Company.

On pages 2 and 3 of Examiner's Comments, it was reported that on September 23, 1959 Bank of Monrovia held participations aggregating $1,000,000 in four unsecured loans (sold by The First National City Bank of New York), each in excess of $700,000 which appeared to be in violation of Section 10(a) of Regulation K. Regarding these holdings, the examiner commented:

"Bank management expressed the opinion that the intention of the Board of Governors was not to impose loan limitations or restrictions on banks organized abroad because the activities of such institutions would be guided by the laws of foreign countries. Management further stated that the attorney for the International Banking Corporation will contact the Board of Governors of the Federal Reserve System about the matter in the near future."

Subsequently, Mr. Henry Harfield of Shearman & Sterling & Wright, attorneys for IBC, discussed the question with representatives of the Board in Washington, with Federal Reserve Examiner Fleetwood present.
In a letter dated December 7, 1959 Vice President Wriston requested that the Board resolve by ruling that, notwithstanding stock ownership of Bank of Monrovia and The First National City Bank of New York (South Africa) Ltd., by IBC, these foreign corporations "are to be governed, in the conduct of their lending operations abroad, by the applicable foreign laws and customs." He stated a memorandum with respect to the problem would be submitted to the Board and opportunity to be heard in support of your views was requested.

In a letter dated January 15, 1960 Shearman & Sterling & Wright transmitted, through the Federal Reserve Bank of New York, copies of a memorandum of the same date in support of the application. On June 1, Messrs. Wriston and Harfield discussed their views further with representatives of the Board in Washington, and in his letter of June 8 Mr. Wriston outlined in brief the points discussed.

In view of the activities of IBC and its parent, The First National City Bank of New York, in the international field, you are aware of the extended consideration given by the Board of Governors and the Federal Reserve Banks, with the helpful assistance of many bank officers with broad experience in the foreign field, to the revision of Regulation K that became effective January 15, 1957. Section 11 of Regulation K was added to make Corporations with agreements under Section 25 of the Federal Reserve Act subject, in many respects, to the same provisions as are applicable to Edge Corporations organized under the provisions of Section 25(a).

Foreign Banking and Foreign Financing Corporations may not purchase or hold any stock in any other corporation, except with the approval of the Board of Governors. It has been the position of the Board that, without further approval of the Board, such Corporations shall not continue to hold any such stock if such other corporation transacts or engages in any business in the United States or takes any action or undertakes any operation which is not permissible to the Corporation under Regulation K. As you know, the agreement with IBC, as amended December 6, 1955, provides no specific percentage limitation on loans to one person. However, in a letter dated September 15, 1955, relating to the establishment by IBC of a Liberian subsidiary which would acquire the business and property of the then operating Bank of Monrovia, Inc. (a
corporation formed under the laws of the State of New Mexico),
IBC was informed that the Board proposed to amend [and subsequently did amend] the regulations contained in the agreement
with IBC to make it entirely clear and specific that, without
the prior consent of the Board, IBC may not purchase or hold any
stock in any other corporation; and that, without such prior con-
sent, no corporation in which IBC owns or holds any stock shall
transact or engage in any business in the United States or take
any action or undertake any operation which is not permissible
to IBC under its agreement. Accordingly, the position taken by
the Board's examiner in the examination of IBC regarding loans in
excess of $700,000 to any one person was consistent with the in-
tention of the Board at the time it authorized IBC to acquire the
stock of The Bank of Monrovia, a Liberian corporation.

Section 10 of Regulation K provides "General Limitations
and Restrictions" applicable to such Corporations and subsection
(a) therein relates to "Liabilities of one borrower." There are
a number of exceptions to the stated limitation of 10 per cent
applicable to a Banking Corporation. In particular, your atten-
tion is invited to exception numbered (8) which exempts "other
classes of transactions at a branch or agency of a Corporation
in a foreign country as the Board of Governors may, upon applica-
tion of the Corporation, exclude from the limitations of this
paragraph due to special circumstances surrounding such transactions
in such country."

No serious consideration has been given to requiring the
loan limitation of 10 per cent to be based upon the combined capital
and surplus of the indigenous institution, although this would be
one possibility. However, it is felt that the subsidiary institu-
tion should not be permitted to exceed the limitations applicable
to the supervised institution. For example in your case, IBC owns
all the stock of The Bank of Monrovia, Monrovia, Liberia. On
June 30, 1960 IBC had capital of $3,500,000 and surplus of $3,500,000,
total $7,000,000. Accordingly, unless permitted by exceptions
granted in Section 10(a), neither IBC, nor The Bank of Monrovia,
or the two institutions combined, should have aggregate loans to
any one person in excess of $700,000.

Should it be desired to extend credit in greater amounts,
it is assumed, of course, that your parent bank would be able to
participate in the arrangement. Regarding this point, Mr. Wriston,
James S. Rockefeller

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in point numbered 4 in his letter of June 8, states: "From a practical point of view, this does not offer a solution to the problem as we do not have any foreign currency in New York to lend. If we were to create the foreign currency by purchasing it with dollars, the bank would then take an exchange risk which we do not wish to assume . . . ." In this connection, your attention is directed to the fact that the four participations held by The Bank of Monrovia each in excess of the $700,000 limitation were in loans to Mexican, Canadian, Austrian, and South African borrowers, denominated in United States dollars, and presumably payable in New York. Hence, it would appear that your subsidiary has not been restricted in serving the Liberian economy because of the requirements of Regulation K and your Agreement.

While the Board recognizes, of course, that in other situations and conditions you might wish to make loans to indigenous borrowers in amounts in excess of the $700,000 limitation, it is the Board's understanding that in few of the overseas branches of your parent bank are there actually loans to individual borrowers in excess of amounts permitted by Regulation K to Foreign Banking Corporations.

In its administration of Sections 25 and 25(a) and Regulation K, the Board has sought to make them useful instruments to enable United States banks, either directly or through subsidiary institutions, to contribute effectively to the development of international finance and trade. Accordingly, the Board is pleased to note Mr. Wriston's comment that he knows "that it is the intent of the Board of Governors to assist American banks in developing their foreign activities and feel sure that the Board wants our subsidiaries to be as effective instruments of American banking abroad as are our branches."

The Board has recently given consideration to what changes, if any, in law or regulation appear warranted in order that the provisions of Section 25(a) and Regulation K may not unduly inhibit Foreign Banking and Foreign Financing Corporations from effectively discharging their responsibilities. As you know, there have been relatively few institutions chartered under the provisions of Section 25(a) since its enactment in 1919, and the experience heretofore gained under the 1957 revision of Regulation K is limited. In the circumstances, the Board has felt that it would not be desirable to make general revision of the Regulation at this time. However, Regulation K is under continuous review and the Board is prepared
Mr. James S. Rockefeller

at any time to consider suggestions by supervised institutions as to modifications and clarifications which, they feel, would enable them to carry out their functions more effectively.

Although careful consideration has been given by the Board to Mr. Wriston's request of December 7 and the views expressed by your attorneys in the memorandum dated January 15, 1960, the Board feels that the position taken by its examiner in the examination of your bank as of October 5, 1959, is consistent with the intent of Regulation K and the Agreement with your Corporation as revised December 6, 1955. Accordingly, the Board does not feel that it would be warranted in acceding to Mr. Wriston's proposal, and it is requested that you arrange to have The Bank of Monrovia reduce each excess loan to within the limits of $700,000, or otherwise eliminate the violations, and inform the Board, through the Federal Reserve Bank of New York, within 60 days, as to the actions taken.

As contemplated by exception numbered (8) to Section 10(a) of Regulation K, the Board will give prompt consideration to any request for exclusions from the limitations of any classes of transactions in individual countries which you feel warrant special consideration.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Mr. Charles Cain, Jr., Executive Vice President,
The Chase Manhattan Bank,
16 Pine Street,

Dear Mr. Cain:

Reference is made to your letter of February 3, 1960, transmitted through the Federal Reserve Bank of New York, advising that The First National City Bank of New York had sent you a copy of a memorandum dated January 15, 1960, filed by their counsel with the Board of Governors of the Federal Reserve System regarding loans outside the United States by foreign banks in which Agreement Corporations or Edge Act Corporations have a stock interest.

You indicate your understanding that a suggestion was made in the course of an examination of International Banking Corporation and its foreign subsidiaries that such subsidiaries may not lend to a single borrower more than the dollar amount which International Banking Corporation might lend to a single borrower." Your understanding is correct. As you know, International Banking Corporation (IBC) is a wholly owned subsidiary of The First National City Bank of New York which furnished you the memorandum.

The Board's reply to your letter has been delayed pending a review of the memorandum, conference with representatives of IBC, and subsequent consideration.

In view of the activities of your bank and its subsidiaries in the international field, you are aware of the extended consideration given by the Board of Governors and the Federal Reserve Banks, with the helpful assistance of many bank officers with broad experience in the foreign field, to the revision of Regulation K that became effective January 15, 1957. Section 11 of Regulation K was added to make Corporations with agreements under Section 25 of the Federal Reserve Act subject, in many respects, to the same provisions as are applicable to Edge Corporations organized under the provisions of Section 25(a).
Foreign Banking and Foreign Financing Corporations may not purchase or hold any stock in any other corporation, except with the approval of the Board of Governors. It has been the position of the Board that, without further approval of the Board, such Corporations shall not continue to hold any such stock if such other corporation transacts or engages in any business in the United States or takes any action or undertakes any operation which is not permissible to the Corporation under Regulation K. Section 10 of Regulation K provides "General Limitations and Restrictions" applicable to such Corporations and subsection (a) therein relates to "Liabilities of one borrower." There are a number of exceptions to the stated limitation of 10 per cent applicable to a Banking Corporation. In particular, your attention is invited to exception numbered (8) which exempts "other classes of transactions at a branch or agency of a Corporation in a foreign country as the Board of Governors may, upon application of the Corporation, exclude from the limitations of this paragraph due to special circumstances surrounding such transactions in such country."

No serious consideration has been given to requiring the loan limitation of 10 per cent to be based upon the combined capital and surplus of the indigenous institution, although this would be one possibility. However, it is felt that the subsidiary institution should not be permitted to exceed the limitations applicable to the supervised institution. For example in your case, The Chase Manhattan Bank owns all the stock of Chase Manhattan Overseas Corporation (CMOC), a corporation organized under the laws of the State of New York and operating under agreement with the Board of Governors, which in turn owns substantially all the stock of The Chase Manhattan Bank (South Africa) Ltd., a corporation organized under the laws of South Africa. Disregarding the current deficit on December 31, 1959, CMOC had capital of $200,000 and surplus of $1,200,000, total $1,500,000. Accordingly, unless permitted by exceptions granted in Section 10(a), neither CMOC, nor the South African bank, nor the two institutions combined, should have aggregate loans to any one person in excess of $150,000. Should it be desired to extend credit in greater amounts, it is assumed, of course, that Chase Manhattan Bank would be able to participate in the arrangement.

In its administration of Sections 25 and 25(a) and Regulation K, the Board has sought to make them useful instruments to enable United States banks, either directly or through subsidiary institutions, to conduct operations abroad so that they may contribute, as you put it in your letter, to bringing about "a better climate in the world for communication and trade."
The Board has recently given consideration to what changes, if any, in law or regulation appear warranted in order that the provisions of Section 25(a) and Regulation K may not unduly inhibit Foreign Banking and Foreign Financing Corporations from effectively discharging their responsibilities. As you know, there have been relatively few institutions chartered under the provisions of Section 25(a) since its enactment in 1919, and the experience heretofore gained under the 1957 revision of Regulation K is limited. In the circumstances, the Board has felt that it would not be desirable to make general revision of the Regulation at this time. However, Regulation K is under continuous review and the Board is prepared at any time to consider suggestions by supervised institutions as to modifications and clarifications which, they feel, would enable them to carry out their functions more effectively. Accordingly, the Board appreciates having the benefit of your views regarding the request made by International Banking Corporation.

Very truly yours,

Kenneth A. Kenyon,
Assistant Secretary.
Mr. Tom B. Coughran,
Executive Vice President,
Bank of America,
41 Broad Street,

Dear Mr. Coughran:

Reference is made to your letter of March 30, 1960, transmitted through the Federal Reserve Bank of New York, advising that it had come to your attention that "the Board of Governors may apply the 10% loan limit which is applicable to Banking Corporations organized under Section 25(a) of the Federal Reserve Act to the overseas subsidiaries of such banks..." In that connection, you state that The First National City Bank of New York had shown you a memorandum dated January 15, 1960 prepared by Shearman & Sterling & Wright, Counsel for International Banking Corporation, respecting loans outside the United States by foreign banks in which Agreement Corporations or Edge Act Corporations have a stock interest.

The Board's reply to your letter has been delayed pending a review of the memorandum, conference with representatives of International Banking Corporation (a wholly owned subsidiary of The First National City Bank of New York) and subsequent consideration.

In view of the activities of your bank and its parent, Bank of America NA, in the international field, you are aware of the extended consideration given by the Board of Governors and the Federal Reserve Banks, with the helpful assistance of many bank officers with broad experience in the foreign field, to the revision of Regulation K that became effective January 15, 1957. Section 11 of Regulation K was added to make Corporations with agreements under Section 25 of the Federal Reserve Act subject, in many respects, to the same provisions as are applicable to Edge Corporations organized under the provisions of Section 25(a).

Foreign Banking and Foreign Financing Corporations may not purchase or hold any stock in any other corporation, except with the approval of the Board of Governors. It has been the position of the
Mr. Tom D. Coughran -2-

Board that, without further approval of the Board, such Corporations shall not continue to hold any such stock if such other corporation transacts or engages in any business in the United States or takes any action or undertakes any operation which is not permissible to the Corporation under Regulation K. Section 10 of Regulation K provides "General Limitations and Restrictions" applicable to such Corporations and subsection (a) therein relates to "Liabilities of one borrower." There are a number of exceptions to the stated limitation of 10 per cent applicable to a Banking Corporation. In particular, your attention is invited to exception numbered (8) which exempts "other classes of transactions at a branch or agency of a Corporation in a foreign country as the Board of Governors may, upon application of the Corporation, exclude from the limitations of this paragraph due to special circumstances surrounding such transactions in such country."

No serious consideration has been given to requiring the loan limitation of 10 per cent to be based upon the combined capital and surplus of the indigenous institution, although this would be one possibility. However, it is felt that the subsidiary institution should not be permitted to exceed the limitations applicable to the supervised institution. For example, in your case, Bank of America owns substantially all the stock of Banca d'America e d'Italia (DAI), Milan, Italy. On June 30, 1960, Bank of America had capital of $31,000,000 and surplus of $6,800,000, total $37,800,000. Accordingly, unless permitted by exceptions granted in Section 10(a), neither Bank of America, nor DAI, nor the two institutions combined, should have aggregate loans to any one person in excess of $3,000,000. Should it be desired to extend credits in greater amounts, it is assumed, of course, that your parent bank would be able to participate in the arrangement.

In its administration of Sections 25 and 25(a) and Regulation K, the Board has sought to make them useful instruments to enable United States banks, either directly or through subsidiary institutions, to contribute effectively to the development of international finance and trade.

The Board has recently given consideration to what changes, if any, in law or regulation appear warranted in order that the provisions of Section 25(a) and Regulation K may not unduly inhibit foreign Banking and Foreign Financing Corporations from effectively discharging their responsibilities. As you know, there have been relatively few institutions chartered under the provisions of Section 25(a) since its enactment in 1919, and the experience heretofore
Mr. Tom B. Coughran

Gained under the 1957 revision of Regulation K is limited. In the circumstances, the Board has felt that it would not be desirable to make general revision of the Regulation at this time. However, Regulation K is under continuous review and the Board is prepared at any time to consider suggestions by supervised institutions as to modifications and clarifications which, they feel, would enable them to carry out their functions more effectively. Accordingly, the Board appreciates having the benefit of your views regarding the request made by International Banking Corporation.

Very truly yours,

Kenneth A. Kenyon,
Assistant Secretary.
Board of Governors of the Federal Reserve System

Washington 25, D.C.

Item No. 9
8/24/60

Address official correspondence to the Board

August 24, 1960

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

Dear Mr. Bilby:

In accordance with the request contained in your letter of August 22, 1960, the Board approves the appointment of David E. Bannister as an assistant examiner for the Federal Reserve Bank of New York. Please advise as to the effective date of the appointment.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.