

FR 609
Rev. 9/61

Minutes for January 16, 1963

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	<u>M</u>
Gov. Mills	<u>[Signature]</u>
Gov. Robertson	<u>[Signature]</u>
Gov. Balderston	<u>CCB</u>
Gov. Shepardson	<u>[Signature]</u>
Gov. King	<u>[Signature]</u>
Gov. Mitchell	<u>[Signature]</u>

Minutes of the Board of Governors of the Federal Reserve System
on Wednesday, January 16, 1963. The Board met in the Board Room at
10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Shay, Assistant General Counsel
Mr. Goodman, Assistant Director, Division of
Examinations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Spencer, General Assistant, Office of the
Secretary
Mr. Bakke, Senior Attorney, Legal Division
Mr. Potter, Senior Attorney, Legal Division
Mr. Gemmill, Economist, Division of International
Finance
Mr. Poundstone, Review Examiner, Division of
Examinations

Morgan Guaranty International Banking Corporation (Item No. 1).

There had been distributed a memorandum from the Division of Examinations dated January 7, 1963, regarding a request by Morgan Guaranty International Banking Corporation, New York, New York, for permission to purchase shares of Bankierscompagnie, N.V., The Hague, The Netherlands, and for permission to amend its Articles of Association to increase its capital stock. A draft of reply granting permission in both respects was attached to the memorandum.

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At the Board's request, Mr. Goodman commented on this subject. He pointed out that the proposal of Morgan Guaranty International to invest in Bankierscompagnie was novel in that the Dutch company, through its subsidiary operating banks, would do a general commercial and investment banking business, including receiving deposits, making loans, creating acceptances, and selling, distributing and underwriting securities. Mr. Goodman observed that this type of operation was not unusual for European banks of the mixed banking type. However, if the Board should grant its consent to the proposed investment, it was suggested that a condition be prescribed that would preclude Bankierscompagnie and any subsidiary from engaging in the securities business in the United States or underwriting, even on a standby basis, any portion being sold or distributed in the United States. The proposed reply had been drafted in a manner reflecting that position. Further, the proposed letter would state that neither Bankierscompagnie nor any subsidiary bank or other affiliated company would be permitted to have a branch, agency, or representative in the United States.

Following discussion, the letter to Morgan Guaranty International Banking Corporation was approved unanimously. A copy is attached as Item No. 1.

Messrs. Goodman, Gemmill, and Poundstone then withdrew from the meeting.

Reports on competitive factors. There had been distributed to the Board drafts of reports to the Comptroller of the Currency on the

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competitive factors involved in (1) the proposed consolidation of Security National Bank of Long Island, Huntington, New York, and The First National Bank of Southampton, Southampton, New York; (2) the proposed consolidation of The National Bank of Liberty, Liberty, New York, and The South Fallsburg National Bank, South Fallsburg, New York; and (3) the proposed merger of The First National Bank of Big Stone Gap, Big Stone Gap, Virginia, into The First National Bank of Appalachia, Virginia.

The reports were approved unanimously for transmittal to the Comptroller, the conclusions therein being stated as follows:

Huntington, New York

Competition between Security National Bank of Long Island and The First National Bank of Southampton is not substantial. However, consummation of the proposal would represent another step in concentrating in three large banks the banking resources originating in Suffolk County and might have adverse effects on the two smaller banks located 6 miles east and 8 miles west of Southampton.

Liberty, New York

The proposed consolidation would eliminate a moderate degree of competition, with most of such competition centered in the Woodbourne-South Fallsburg section of Sullivan County, where the service areas of the two banks overlap.

It does not appear, however, that the proposal would seriously affect banking competition in Sullivan County where a number of active competitors would continue to provide convenient alternative banking sources.

Appalachia, Virginia

A merger of The First National Bank of Big Stone Gap, Big Stone Gap, Virginia, and The First National Bank of Appalachia, Appalachia, Virginia, would eliminate the substantial amount of competition between the two banks and

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deprive residents of the two communities of one of the two sources of banking services now reasonably accessible to them.

Mr. Potter then withdrew from the meeting.

Applicability of Bank Holding Company Act to industrial banks

(Item No. 2). At the meeting on January 15, 1963, the Board considered a draft of a proposed interpretation regarding the applicability of the Bank Holding Company Act to industrial banks, at the conclusion of which it was understood that the draft would be revised in the light of certain suggestions agreed upon. There had now been distributed a memorandum from the Legal Division dated January 15, 1963, to which there was attached a revised draft of the proposed interpretation. The memorandum pointed out that the revised draft omitted a paragraph of the earlier draft relating to consideration of State statutes. The Legal Division felt that that particular paragraph was not essential to the conclusion and that conceivably it might be read as implying that State statutes were poorly drafted or that the Board did not wish to take the trouble of examining them.

Following comments by Mr. Hackley, the revised interpretation concerning the applicability of the Bank Holding Company Act to industrial banks was approved unanimously. A copy is attached as Item No. 2.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

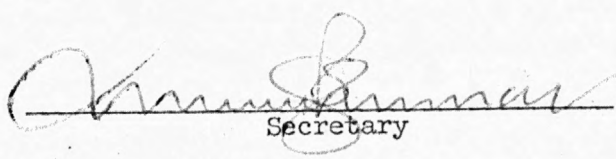
Memorandum from Mr. Young, Adviser to the Board and Director, Division of International Finance, requesting permission to make a one-day stopover in London, England, on January 24, 1963, following a meeting in Paris, France, of Working Party 3 of the Economic Policy

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Committee of the Organization for Economic Cooperation and Development on January 22 and 23, 1963, in order to confer with officials of the British Treasury and the Bank of England, with reimbursement on an actual expense basis, including official entertainment.

Letter to the Interagency Committee on Automatic Data Processing, Bureau of the Budget, advising of the nomination of M. H. Schwartz, Director, Division of Data Processing, as the Board's representative on the Interagency Committee.


Secretary

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

Item No. 1
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 16, 1963

Morgan Guaranty International
Banking Corporation,
23 Wall Street,
New York 8, New York.

Gentlemen:

In accordance with the request and on the basis of the information furnished in your letter of October 31, 1962, transmitted through the Federal Reserve Bank of New York, and your letter of December 5, 1962, the Board of Governors grants its consent for Morgan Guaranty International Banking Corporation ("MGIBC") to purchase and hold 5,000 ordinary shares, par value 1,000 guilders per share, of Bankierscompagnie, N.V., The Hague, The Netherlands, ("Company"), at a cost of approximately US\$1,400,000, provided such stock is acquired within one year from the date of this letter.

The Board's consent is granted upon condition that MGIBC shall dispose of its holding of stock of Company, as promptly as practicable, in the event that Company should at any time (1) engage in issuing, underwriting, selling or distributing securities in the United States; (2) 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 (3) otherwise conduct its operations in a manner which, in the judgment of the Board of Governors, causes the continued holding of its stock by MGIBC to be inappropriate under the provisions of Section 25(a) of the Federal Reserve Act or regulations thereunder.

Your letter of October 31, 1962 states that Company will, through its operating affiliates, do a general commercial and investment banking business including receiving deposits, making loans, accepting notes, and selling, distributing and underwriting securities and that in order to capitalize on the reputation and good will of each name (R. Mees & Zoonen and Hope & Co.) each firm will continue as a separate accredited private bank under the banking laws of The Netherlands. Your letter of December 5, 1962 states, among other things,

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Banking Corporation

that The York Commercial Corporation, New York, one of the subsidiary companies, is "dormant except for occasional investment in short-term liquid assets." It is noted, however, that the name of the company is listed in the 1962-1963 Manhattan Telephone Directory with an indication that it is engaged in "financing."

In the circumstances, the Board's consent is given with the additional condition that neither Company nor any subsidiary bank or other affiliated company will maintain any branch, agency, office, or representative in the United States and that Company or any subsidiary bank or other affiliated company, in issuing, underwriting, selling or distributing securities abroad, shall not engage or participate in the underwriting, sale or distribution of securities in the United States (except the issuance of its own securities), and may not so engage or participate directly or indirectly or through an agency or on a commission or consignment basis or in any other manner. If a security issue is being sold or distributed partly in and partly outside the United States, Company or any subsidiary bank or other affiliated company may not underwrite, even on a standby basis, that portion being sold or distributed in the United States (no matter by whom it is being so sold or distributed.)

The Board of Governors also approves the amendment to Article SEVENTH of the Articles of Association of MGIBC to provide that the capital stock of the Corporation shall consist of 40,000 shares of common stock of the par value of \$100 each.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

TITLE 12 - BANKS AND BANKING

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. Y]

PART 222--BANK HOLDING COMPANIES

§ 222.116 Applicability of the Bank Holding Company Act to Industrial Banks.

(a) Questions have been presented to the Board of Governors regarding the applicability of the Bank Holding Company Act of 1956 (12 U.S.C. 1841 et seq.) to the acquisition of the stock of so-called "industrial banks".

(b) Section 2(c) of the Act (12 U.S.C. 1841(c)) provides that the term "bank" means, for purposes of the Act, "any national banking association or any State bank, savings bank, or trust company * * *."

(c) Industrial banks are State-chartered institutions which engage in the furnishing of consumer credit. Although these institutions customarily accept from borrowers installment payments on "investment certificates" (or similar instruments, by whatever name called) the proceeds of which, when fully paid, may be used to retire the loan, they may also issue either installment or paid-up investment certificates unrelated to loan transactions and, in some States, may receive "savings deposits" evidenced by passbook or otherwise.

(d) Since industrial banks are obviously not national banking associations, savings banks, or trust companies, the question is whether they are to be regarded as "State banks" under the Act.

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(e) It appears that a principal purpose of the Act was the control of concentration of commercial banking resources because of their influence on the money and credit system of the country. While not conclusive, statements in the Committee Reports on the Act indicate that it was directed principally at control of "commercial" banks, and statements made during debates on the bill suggest specifically that "industrial banks", as that term is usually understood, were not regarded as being engaged in commercial banking. In any event, it is clear that the Congress did not intend to include all financial intermediaries within the purview of the Act, as is evidenced by subsequent enactment of other legislation to regulate holding companies controlling savings and loan associations. Therefore, while the legislative history of the Act is not clear regarding the status of industrial banks thereunder, it seems reasonable to conclude that the key term "State bank" in the Act was employed by the Congress in its restrictive sense as a word of art (i.e., limited in applicability to those institutions engaged in operations characteristic of commercial banking) rather than as a "basket" provision.

(f) In light of the foregoing, it is the opinion of the Board that, taking into account the spirit and purpose of the Act, industrial banks are not within the purview of the term "State bank" as used in the Act, unless in a particular case, regardless of the title of the institution or the form of the transaction, it accepts deposits subject to check or otherwise accepts funds from the public that are, in actual practice, repaid on demand, as are demand or savings deposits held by commercial banks.

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(g) Accordingly, the Board concludes that industrial banks and similar institutions that do not fall within the exception above stated are not "banks" within the meaning of the Act and control of such institutions does not cause a corporation to be a "bank holding company". It follows also, of course, that, since such an institution is not a bank for purposes of the Act, its stock may not be acquired by a bank holding company, unless the acquisition falls within one of the exceptions set forth in section 4 of the Act.

(12 U.S.C. 1844)

Dated at Washington, D. C., this 16th day of January, 1963.

By order of the Board of Governors.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)