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Minutes for August 29, 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

RM
[Handwritten signature and scribble]

Gov. Mills

Gov. Robertson

Gov. Balderston

CCB

Gov. Shepardson

[Handwritten initials]

Gov. King

[Handwritten initials]

Gov. Mitchell

[Handwritten initials]

Minutes of the Board of Governors of the Federal Reserve System on Thursday, August 29, 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. Kenyon, Assistant Secretary
 Mr. Fauver, Assistant to the Board
 Mr. Farrell, Director, Division of Bank Operations
 Mr. Solomon, Director, Division of Examinations
 Mr. Hexter, Assistant General Counsel
 Mr. Shay, Assistant General Counsel
 Mr. Furth, Adviser, Division of International Finance
 Mr. Daniels, Assistant Director, Division of Bank Operations
 Mr. Goodman, Assistant Director, Division of Examinations
 Mr. Leavitt, Assistant Director, Division of Examinations
 Mr. Young, Senior Attorney, Legal Division
 Mr. Doyle, Attorney, Legal Division

Circulated or distributed items. The following items, copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

Letter to Manufacturers Hanover International Banking Corporation, New York, New York, granting permission to purchase shares of the National Investment Bank for Industrial Development, Athens, Greece.

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Letter to The North Jersey Trust Company, Ridgewood, New Jersey, approving the establishment of a branch at 15 West Ridgewood Avenue.

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	<u>Item No.</u>
Letter to Gary-Wheaton Bank, Wheaton, Illinois, interposing no objection to an investment in bank premises.	3
Letter to Southern Commercial and Savings Bank, St. Louis, Missouri, granting an extension of time to accomplish withdrawal from membership in the Federal Reserve System.	4
Letter to the Comptroller of the Currency with regard to the recently adopted revision of Regulation M, Foreign Branches of National Banks.	5

Report on competitive factors (Birmingham, Alabama). There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed consolidation of the Bank for Savings and Trusts with the Birmingham Trust National Bank, both of Birmingham, Alabama.

After discussion, which resulted in agreement on a minor change in the conclusion, the report was approved unanimously for transmittal to the Comptroller in a form in which the conclusion read as follows:

A consolidation of Birmingham Trust National Bank and Bank for Savings and Trusts, both of Birmingham, Alabama, would eliminate substantial existing and potential competition. Furthermore, this consolidation of the second and fourth largest banks in Birmingham would add significantly to an already high degree of concentration of banking resources in the area. The two largest banks in the city, combined, now hold 81 per cent of IPC deposits and 74 per cent of banking offices in the Birmingham trade area which would be increased to 88 per cent and 76 per cent, respectively, following the consolidation. Following the transaction the third largest bank in Birmingham, and the only other sizable commercial bank in Birmingham, would be exposed to intensified competition. On balance, the effect of the proposed consolidation on competition would be substantially adverse.

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Reclassification of member banks in Second District (Item No. 6).

In a letter dated August 2, 1963, the Federal Reserve Bank of New York recommended a reclassification of member banks in the Second District for the purpose of electing Class A and Class B directors. The existing classification had been established by the Board on June 24, 1960; since then the number of banks in the District had declined 11 per cent while the total capitalization had increased 15 per cent. The New York Reserve Bank noted that with the continuing trend toward increased capitalization, a number of banks outside New York City had moved into the Group 1 classification and the New York City banks now constituted less than a majority of this group. It was maintained that if the Group 1 banks continued to elect as a Class A director an officer of one of the large New York City banks, as had been the case in the past, a number of highly qualified officers of banks outside New York City would be deprived of an opportunity to serve as directors of the Reserve Bank. The proposed reclassification would move seven banks from Group 1 to Group 2, and 31 banks from Group 2 to Group 3. In recommending a reclassification this year, the Reserve Bank was following a policy of making such recommendations in the year when the Group 3 banks of the District vote, in order to insure to all member banks the privilege of voting for directors once in three years. If the reclassification was not established prior to the election by the Group 3 banks this year, the Reserve Bank would not wish to recommend reclassification until 1966.

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The letter had been circulated to the Board with a memorandum from the Division of Bank Operations dated August 12, 1963, to which was attached a draft of a letter that might be used if the Board decided to act in accordance with the recommendation of the Reserve Bank.

In discussion, Governor Robertson commented that the recommendation appeared to have been brought about by the fact that the Group 1 category now included 10 banks outside New York City. Whereas heretofore a New York City bank has always been assured a directorship in the Reserve Bank, this was no longer the case. The proposed reclassification, however, meant that the New York City banks almost certainly would always be represented on the Board of Directors. In his opinion, this would not be in accord with the intent of the statute. The statute admittedly was in need of revision, and the formula used by the Board of Governors for the classification of member banks reflected the need for revision of the statute. However, he could not sanction a reclassification having the apparent motivation of the current proposal. Further, the reclassification would reduce the number of Group 2 banks from 34.7 per cent to less than 30 per cent, and this would seem to run counter to the principle of the formula that was now in existence.

Mr. Farrell observed that the interpretation made by Governor Robertson could be placed on the proposal of the New York Reserve Bank. On the other hand, the Reserve Bank had put the matter the other way

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around; that is, that under an unwritten rule the Group 1 banks traditionally elect a representative of the money market banks and that banks outside New York City were disenfranchised, so to speak, if they were included in that group. Mr. Farrell also pointed out that within the System the largest movement of banks was from Group 3 to Group 2. If it were assumed that over a three-year cycle the percentage of Group 2 banks in the New York District would move upward about 6 percentage points, it would adhere more closely to the Board's formula if the beginning percentage of Group 2 banks were 30 rather than 34.

Governor Mills inquired whether, as a practical matter, the changing of seven member banks located outside New York City from Group 1 to Group 2 did not mean that they would then have an effective vote, while if they remained in Group 1 they would be less likely to have a representative from among them on the Board of Directors.

Governor Robertson replied that this was only because of the existence of an unwritten rule, which he did not favor, designed to hold one directorship open for New York City banks. One could not be sure whether there would be continued adherence to this rule.

Mr. Daniels brought out that the proposed reclassification would restore the approximate percentage relationship of Group 1, 2, and 3 banks that obtained upon the establishment of the existing classification.

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Governor Balderston inquired whether it was felt that the Federal Reserve System would be an effectively organized central bank without a representative of the New York City banks on the New York Reserve Bank's Board of Directors, in view of the City's position as the financial capital of the country, to which Governor Robertson replied that he thought it might be better not always to have a representative of the money market banks on the Board of Directors. He saw potential dangers in such a practice.

Following additional discussion along these lines, Governor Mills indicated that he would be inclined to adopt the proposed reclassification.

Governor Balderston said he was not sure that much would be gained for the System by turning down the recommendation. It seemed to him that the Reserve Bank might have deferred its recommendation for three years without great harm to anyone, but he was not impressed that the recommendation, having been made, should be turned down. Governor Balderston made the further comment that he followed a basic premise different from that of Governor Robertson; in his opinion, the Federal Reserve System benefited from having an effective avenue of communication with the money market banks such as was provided by the presence of a New York City banker on the New York Board of Directors.

Chairman Martin expressed the view that the proposed reclassification could be defended without too much difficulty.

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After further discussion, the recommended reclassification of member banks in the Second District was adopted, Governor Robertson dissenting for the reasons he had indicated. A copy of the letter sent to the Federal Reserve Bank of New York pursuant to this action is attached as Item No. 6.

Proposal to acquire Canadian bank and trust company (Item No. 7).

International Banking Corporation, New York, New York, an "agreement" corporation, had requested the Board's consent to purchase the outstanding stock of The Mercantile Bank of Canada and Mercantile Trust Company, both of Montreal, Canada; and in this connection First National City Bank, New York, New York, had made application for permission to purchase additional stock of International Banking Corporation to the extent of \$5 million.

There had been distributed to the Board a memorandum from the Division of Examinations dated August 23, 1963, discussing the proposal and recommending favorably. The Mercantile Bank of Canada was presently owned by Dutch interests and was the smallest of the eight chartered banks in Canada. Mercantile Trust Company was owned by the same Dutch interests. Mercantile Bank was chartered in 1953 and had been operating under a policy emphasizing international business. It had its head office in Montreal and branches in Toronto, Montreal, and Vancouver, so that the contemplated purchase would provide First National City Bank with banking facilities in three major Canadian cities. The

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proposal had engendered some opposition among Governmental authorities in Canada, as distinguished from the banking community. However, agencies of Canadian banks had operated actively in the United States for many years, and enjoyed substantial advantages in the New York market where the restrictions on member banks were in large measure not applicable to them. There were presently no American-owned banks or branches in Canada, whereas the five largest Canadian banks operated 28 offices in the United States.

There had also been distributed copies of a letter from an officer of First National City Bank dated August 27, 1963, indicating, among other things, that about 85 per cent of the operations of Mercantile Bank of Canada were conducted in Euro-dollars, and that the items described as foreign deposit liabilities on a condensed balance sheet of Mercantile Bank as of May 31, 1963, were all U. S. dollars.

There had likewise been distributed a memorandum from Mr. Furth dated August 23, 1963, which noted that the proposed transaction might well affect the U. S. balance of payments more seriously than other recent foreign investments of Edge Act and agreement corporations taken together. The transaction would mean the transfer of \$6.6 million to the Netherlands. Also, the decision of First National City Bank to go into Canada was presumably caused not merely by a desire to foster U. S. commerce with Canada but also by a desire to foster U. S. financial investments in Canada and especially to participate more fully in

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Canadian operations in the Euro-dollar market. Further, the take-over of a Canadian bank by U. S. capital at a time when the U. S. Government had proposed legislation to curb the acquisition of Canadian shares by private U. S. citizens would seem inconsistent and would hardly contribute to easing the recent strain on financial relationships between the two countries.

Following comments by Mr. Goodman based principally on the Division memorandum that had been distributed, Mr. Furth amplified the points mentioned in his memorandum. On the one hand, it would undoubtedly be in furtherance of the international monetary prestige of this country if a U. S. bank were permitted to do business in Canada. Canadian banks, through agencies, were doing a lot of business in the United States, while U. S. banks were excluded from doing business in Canada. However, there were a number of difficult problems involved from the standpoint of the U. S. balance of payments. First, there would be the transfer of \$6.6 million to the Netherlands. Second, although the transaction would not be of a kind that would be subject to the proposed interest equalization tax, a similar transaction would be subject to the tax if it did not confer control of the Canadian bank and the trust company. The more important question, however, was whether the Board should approve a transaction that would encourage the flow of U. S. funds into the Euro-dollar market. The recent increase in short-term U. S. interest rates reflected a policy having as a major

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purpose the discouraging of flows of U. S. funds into that market. As Mercantile Bank was now constituted, loans and investments in the U. S. seemed to be relatively large in relation to U. S. deposits with the bank. From an economic point of view, therefore, there might be perhaps even an actual advantage from the standpoint of the balance of payments in the operations of Mercantile Bank. The question was whether it could be assumed that this would continue. If First National City Bank so desired, it could discourage U. S. deposits with this bank; on the other hand, it could encourage them. There were no doubt many Americans who would be hesitant to put dollar deposits in the British market. There might also be some Americans who were hesitant to put dollars in Canadian banks that had no connection with U. S. banks, if for no other reason than the unlikelihood of being able to use the credit facilities of those banks. However, if there was a Canadian bank that proclaimed to be affiliated with a large U. S. bank, many American corporations might feel that this was an ideal situation for the purpose of getting a higher rate of return on their money without losing a connection with a bank that might be of use to them, if at some time they wanted credit. Therefore, unless specific assurance was received from First National City Bank to the contrary, the proposed acquisition almost certainly would facilitate the flow of U. S. funds into the Euro-dollar market. Also, for legal reasons, it was necessary to see that Mercantile Bank,

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as a subsidiary of International Banking Corporation, would be restricted in its business done in the United States; this would make it almost a certainty that the funds would not flow back directly to the United States. Therefore, there would be not only a statistical deterioration in the balance of payments but also an actual deterioration. Whether such relatively vague indications of future possibilities were sufficient grounds for rejection of the application was something on which Mr. Furth had no firm opinion. This was obviously something for the Board itself to decide. There was, of course, nothing illegal about doing business in the Euro-dollar market. The only question was whether the Board should approve a proposal that seemed likely to encourage the flow of American dollars to the Euro-dollar market.

After further staff comments on the proposal, Governor Mills said that he would approve the proposed transaction, although with great reluctance and only because the majority of the Board had adopted the revised Regulation M and Regulation K. He felt that Mr. Furth's comments were soundly based and that this operation would encourage the outflow of gold and dollars from the United States at a time when the Federal Reserve System had been held out as the agency within the Government that was intended to deal with this sort of thing. He also believed that approval of this transaction would not be fully consistent with the statement of national purpose in Regulation K, which indicates that undertakings pursuant to the Regulation are supposed to abet the

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financing of U. S. international trade. If the difficult balance of payments problem continued, and if it should be aggravated by operations conducted by Mercantile Bank, this would hasten the time when it would be necessary for the Federal Government to assume a posture that would be contradictory to a free flow of foreign trade.

Governor Mills also noted that the proposed letter to First National City Bank would state that International Banking Corporation, when required by the Board of Governors, would cause Mercantile Bank to permit examiners selected or auditors approved by the Board of Governors to examine the bank and furnish the Board such reports as it might require from time to time. He was not sure but that this was a delegation of authority contrary to paragraph 6 of section 25 of the Federal Reserve Act. He gathered that it had been the intent of Congress that examinations would be conducted by examiners commissioned by the supervisory agency, not by a firm of accountants. When Mr. Shay commented that the language in the letter conformed to the language of Regulation K, as revised effective September 1, 1963, Governor Mills replied that this was just another defect of the revised Regulation that had escaped his scrutiny. He noted that when First National City Bank recently proposed to establish a branch in Geneva, the Swiss authorities had objected to a provision that would permit examination of the branch by a U. S. Federal supervisory agency. The language of the proposed letter would relieve Mercantile Bank of any

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possibility of a supervisory examination if the Federal Reserve at any time wished to exact that discipline.

Governor Robertson stated that he would oppose the proposed transaction. He felt that Mr. Furth's views were sound. If the Federal Reserve intended to do anything about the U. S. balance of payments, insofar as it had the power to permit or deny operations of this kind, this case could be a benchmark. Denial might do more good, in his opinion, than any of the other things the Federal Reserve had done to correct the balance of payments situation, even though the amount of the proposed investment would be relatively small.

Governor Balderston said he had great concern about the potentialities to which Mr. Furth had referred. On balance, however, he felt that the proposal ought to be approved. As a national policy, the U. S. was not prohibiting direct investments abroad, and this would be a direct investment. Canadian banks had facilities in this country that American banks had not been able to secure in Canada, and this would impress most people as a matter of inequity that ought to be redressed. Whether First National City Bank would use this acquisition to help the U. S. balance of payments or to injure it, one could not be sure, but he was impressed that the outflow of capital, short as well as long term, was proceeding through a great many channels, of which this would be just one. Money was flowing to London through branches of New York City banks; it was going out from Canada through

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The Bank of Nova Scotia and others. He doubted whether this particular proposal ought to be singled out and an example made of it. Therefore, he would approve the proposal.

Chairman Martin also stated that he would approve. Much stress should be placed on multilateral nondiscriminatory trade as a basic principle. To say that someone who had a chance to go into Canada could not do so because this might aggravate the balance of payments situation, when the operation would only be a drop in the bucket, would involve a violation of that basic principle. He hoped sincerely that the U. S. was going to have the courage to adhere to this principle.

There followed a brief discussion as to whether it would be desirable to incorporate in the letter to First National City Bank language calling attention specifically to restrictions on the extent to which Mercantile Bank might do business in the United States. It was agreed that in view of the pertinent provisions of Regulation K, such language would not be necessary in the letter to First National City Bank.

Thereupon, approval was given to the letter to First National City Bank of which a copy is attached as Item No. 7, Governor Robertson dissenting for the reasons he had stated.

The meeting then adjourned.

Secretary's Note: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Balderston, acting in the absence of Governor Shepardson, today approved on behalf of the Board acceptance

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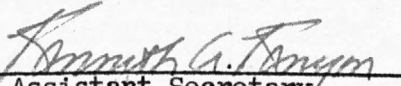
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of the resignations of the following persons on the Board's staff, effective at the close of business on the dates indicated:

Jared J. Enzler, Summer Research Assistant, Division of Research and Statistics, August 30, 1963.

Myron A. Grove, Economist, Division of Research and Statistics, September 4, 1963.

Seymour Golodner, Technical Assistant, Division of Bank Operations, September 7, 1963.


Assistant Secretary

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

Item No. 1
8/29/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 29, 1963.



Manufacturers Hanover International Banking Corporation,
44 Wall Street,
New York 15, New York.

Gentlemen:

In accordance with the request contained in your letter of July 12, 1963, transmitted through the Federal Reserve Bank of New York, and on the basis of the information furnished, the Board of Governors grants consent for Manufacturers Hanover International Banking Corporation ("MHIBC") to purchase and hold 3,000 shares, par value Drachmae 3,000 each, of National Investment Bank for Industrial Development S.A. ("NIBID"), Athens, Greece, at a cost of Drachmae 9,000,000 or approximately US\$300,000 (equivalent), provided such stock is acquired within one year from the date of this letter.

The Board's consent is granted upon condition that MHIBC shall dispose of its holding of stock of NIBID, as promptly as practicable, in the event NIBID 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 MHIBC to be inappropriate under the provisions of Section 25(a) of the Federal Reserve Act or regulations thereunder. The Board also grants its approval under Section 25(a) of the Federal Reserve Act and Section 211.9(d)(2) of Regulation K to the purchase and holding of such shares.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 2
8/29/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 29, 1963

Board of Directors,
The North Jersey Trust Company,
Ridgewood, New Jersey.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The North Jersey Trust Company, Ridgewood, New Jersey, of a branch at 15 West Ridgewood Avenue, Ridgewood, New Jersey, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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

Item No. 3
8/29/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 29, 1963



Board of Directors,
Gary-Wheaton Bank,
Wheaton, Illinois.

Gentlemen:

The Board of Governors of the Federal Reserve System has received the request of your bank for approval of a recent expenditure for bank premises. Section 24A of the Federal Reserve Act requires a State member bank to obtain the approval of the Board of Governors for an investment in bank premises which, when added to the carrying value of present investments in such premises, will aggregate an amount in excess of the bank's capital stock. Since the expenditure in this case has already been made, the prior approval contemplated by the statute cannot be given.

However, if a timely request had been made for the required approval, it appears, on the basis of information before the Board, that such approval would have been granted. Accordingly, the Board offers no objection to the expenditure of \$258,673.75 for new banking quarters.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 4
8/29/63
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 29, 1963

Board of Directors,
Southern Commercial and Savings Bank,
St. Louis, Missouri.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to November 16, 1963, the time within which Southern Commercial and Savings Bank, St. Louis, Missouri, may withdraw from membership in the Federal Reserve System.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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Item No. 5

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

August 29, 1963



The Honorable James J. Saxon,
Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Dear Jim:

Your letter of August 15 concerned the Board's Regulation M as revised August 1, 1963, principally in implementation of Public Law 87-588.

Enactment of Public Law 87-588 was the result of efforts, initiated by the Board in 1956, to secure the enactment of legislation that would improve the usefulness of foreign branches of national banks. The Board's legislative recommendations and its continuing interest in the matter were mentioned by both the Senate and House Committees on Banking and Currency in their reports on S. 1771, the bill that became Public Law 87-588 (S. Report No. 738, August 15, 1961; H. Report No. 2047, July 27, 1962).

The Board's interest in the matter covered by Public Law 87-588 arises, of course, from the broad authority that Congress has centralized in the Board with respect to foreign operations of United States banks. For many years sections 9 and 25 of the Federal Reserve Act have made it necessary for national banks and State member banks to obtain the Board's approval before establishing foreign branches or investing in the stock of State-chartered foreign banking corporations operating under agreements with the Board to restrict their operations in accordance with such limitations as the Board may prescribe. National banks and State member banks also may invest in the stock of so-called Edge corporations chartered and regulated by the Board pursuant to section 25(a) of the Federal Reserve Act to carry on foreign banking or financial operations. One of the consequences of a broad study by the Board in this entire area of responsibility vested in it by Congress was the Board's conclusion in 1956 of the need for legislation such as that provided by Public Law 87-588.

The language of Public Law 87-588 makes it abundantly clear that the exercise of any of the banking powers contemplated by the

The Honorable James J. Saxon

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statute must be authorized by such regulations as the Board, in its discretion, may issue and be subject to such conditions and requirements as the regulations may prescribe. As indicated in the Senate Committee report previously mentioned, additional banking powers are to be permitted under Public Law 87-588 only "if the Board feels that to do so would further U. S. foreign commerce, and would be consistent with sound banking practices". This is the basis on which the Board acted in promulgating its Regulation M.

Before issuing the Regulation, views of United States banks operating foreign branches were solicited as to the matters they felt should be covered in the Regulation. A draft of the Regulation was published in the Federal Register for comments by all interested persons and copies of the draft were brought to the particular attention of the United States banks operating foreign branches and the interested Government agencies, including your Office. Thereafter the Board distributed to interested persons and agencies for further comments a redraft of the proposed Regulation. All information received by the Board, including comments received from you, were carefully considered before the Regulation was adopted.

Sincerely yours,

(Signed) Bill

Wm. McC. Martin, Jr.

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

Item No. 6
8/29/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 29, 1963.

Mr. Alfred Hayes, President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Hayes:

As recommended in your letter of August 2, 1963, the Board has changed the classification of member banks in the Second District, for the purpose of electing Class A and Class B Directors, to the following:

<u>Group</u>	<u>Banks with Capital and Surplus of:</u>
1	More than \$40,000,000
2	\$1,500,000 to \$40,000,000, inclusive
3	Less than \$1,500,000

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.



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

Item No. 7
8/29/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 29, 1963.

First National City Bank,
399 Park Avenue,
New York 22, New York.

Gentlemen:

In accordance with the request and on the basis of the information furnished in your letter of July 25, 1963, transmitted through the Federal Reserve Bank of New York, the Board of Governors grants permission to First National City Bank, pursuant to the provisions of Section 25 of the Federal Reserve Act, to increase from \$7,000,000 to \$12,000,000 the amount it may invest in the stock of International Banking Corporation ("IBC"), New York, New York.

The Board of Governors also grants consent for IBC to purchase and hold:

- (1) All of the outstanding shares of The Mercantile Bank of Canada ("MB"), Montreal, Canada, for approximately Can.\$6,470,000 (approximately US\$5,994,000 equivalent); and
- (2) All of the outstanding shares of Mercantile Trust Company ("MT"), Montreal, Canada, for approximately Can.\$643,000 (approximately US\$595,740 equivalent),

Provided such shares are acquired within one year from the date of this letter.

The Board also approves the purchase and holding of shares of MB within the terms of the above consent in excess of 15 per cent of IBC's capital and surplus.

The Board's consent to the proposed purchase and holding of shares of MB by IBC is granted subject to the following conditions:

- (1) That IBC shall not hold any shares of stock in MB if MB at any time fails to restrict its activities to those permissible to a corporation in which a corporation organized under Section 25(a) of the Federal

First National City Bank

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Reserve Act could, with the consent of the Board of Governors, purchase and hold stock, or if MB establishes any branch or agency or takes any action or undertakes any operation in Canada or elsewhere, in any manner, which at the time would not be permissible if MB were a corporation organized under said Section 25(a);

- (2) That, when required by the Board of Governors, IBC will cause MB to permit examiners selected or auditors approved by the Board of Governors to examine MB and to furnish the Board of Governors with such reports as it may require from time to time;
- (3) That IBC shall dispose of any shares of stock in MB as promptly as practicable if MB should engage in the business of underwriting, selling, or distributing securities in the United States or if IBC is advised by the Board that their holding is otherwise inappropriate under Sections 25 or 25(a) of the Federal Reserve Act or under Regulation K;
- (4) That IBC shall not carry on its books the shares of MB at a net amount in excess of the book capital accounts of MB, after giving effect to the elimination of all known losses; and
- (5) That any share acquisitions or dispositions by MB be reported under Section 211.8(d) of Regulation K in the same manner as if MB were a corporation organized under Section 25(a) of the Federal Reserve Act.

The Board's consent to the proposed purchase and holding of shares of MT by IBC is granted subject to the same conditions prescribed in the next above paragraph with respect to the shares of MB, except for the substitution of "MT" for "MB" where it appears.

The Board's consent is given with the additional condition that neither MB nor MT nor any subsidiary bank or other subsidiary company will maintain any branch, agency, office, or representative in the United States.

Please advise the Board of Governors through the Federal Reserve Bank of New York when the acquisitions of shares have been made.

Section 211.9(b) of Regulation K which relates to "Liabilities of one borrower" provides, in part:

First National City Bank

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"Except as the Board may otherwise specify, the total liabilities to a Corporation of any person shall at no time exceed 50 per cent of the Corporation's capital and surplus, or 10 per cent thereof if it is engaged in banking. In this paragraph 'liabilities' includes: any obligations for money borrowed and shares of stock; . . ."

Subject to continuing observation and review, the Board suspends, until further notice, (1) the provisions of the above-quoted portion of Section 211.9(b) to the extent that the investment by IBC in the stock of MB would cause "liabilities" to exceed the percentage limitations stated therein; and (2) the provisions of subparagraph (1) of the fourth paragraph of this letter so far as they relate to restrictions on loans granted by MB or MT in Canada in the currency of that country.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.