

Minutes for March 8, 1965

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

W

Gov. Robertson

R

Gov. Balderston

CSB

Gov. Shepardson

SSD

Gov. Mitchell

M

Gov. Daane

DD

Minutes of the Board of Governors of the Federal Reserve System on Monday, March 8, 1965. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Robertson
Mr. Shepardson
Mr. Mitchell
Mr. Daane

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research and Statistics
Mr. Solomon, Director, Division of Examinations
Mr. Shay, Assistant General Counsel
Mr. Sammons, Adviser, Division of International Finance
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mrs. Semia, Technical Assistant, Office of the Secretary
Mr. Forrestal, Attorney, Legal Division
Mr. Egertson, Supervisory Review Examiner, Division of Examinations
Messrs. Goodfellow and Poundstone, Review Examiners, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, and San Francisco on March 4, 1965, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

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

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	<u>Item No.</u>
Letter to The County Trust Company, White Plains, New York, approving the establishment of a branch in the Town of Harrison.	1
Letter to Manufacturers and Traders Trust Company, Buffalo, New York, approving the establishment of a branch in the Town of Clarence.	2
Letters to United California Bank, Los Angeles, California, approving extensions of time to establish branches in Stockton and Placentia.	3-4
Telegram to the Federal Reserve Agent at Cleveland authorizing the issuance to Society Corporation, Cleveland, Ohio, of a general permit to vote its stock of Society National Bank of Cleveland.	5

Mr. Egertson then withdrew from the meeting.

Foreign branches and investments (Item No. 6). In the interest of implementation of the President's program to improve the nation's balance of payments position, in part through voluntary efforts to restrain foreign lending and investment, Governor Robertson made certain recommendations in a distributed memorandum dated March 1, 1965, for the approach to be taken by the Board in regard to the establishment of foreign branches by member banks and corporations operating under sections 25 and 25A of the Federal Reserve Act and in regard to investments by such corporations. (On March 5, 1965, the Board issued a set of 14 guidelines for commercial banks to follow in complying with the President's program, with the objective of preventing outstanding bank credit to nonresidents of the United States from rising above the amount

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outstanding at the end of 1964 by more than 5 per cent.) Governor Robertson expressed the view that, while customary criteria should be used by the Board, applications should be considered in the light of the general principles contemplated by the program. He recommended that:

1. With respect to the establishment of foreign branches, the Board continue to grant or deny permissions on the same basis as heretofore, but indicate to applicants that funds to be invested (whether in the form of allocated capital, advances, and, if acquired abroad, fixed assets and equipment) should be counted as part of their 5 per cent target.

2. With respect to stock investments by corporations requiring specific consent or approval by the Board, applicants be asked to provide assurances that, if approved, the proposed investments would not cause total credits to foreigners (as defined for purposes of the voluntary foreign credit restraint program) to exceed 105 per cent of the amount outstanding on December 31, 1964. Before granting specific consent or approval to investments by corporations in the shares of foreign banks and corporations, the Board should be presented with ample evidence that the proposed investment would be in the national interest.
 - a. With respect to equity investments in nonbank companies, the Board might wish to withhold consent if the investment was in a country the securities of which were subject to the interest equalization tax.

3. With respect to investments permitted by general consent, a letter be sent to all Edge Act and agreement corporations advising that, while the general consent provisions of Regulation K, Corporations Engaged in Foreign Banking and Financing under the Federal Reserve Act, were not being modified regarding the acquisition of shares of other corporations, it was expected that investments made under such provisions would not cause the corporations to exceed their targets under the restraint program.

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There had also been distributed a memorandum dated March 4, 1965, from the Division of Examinations, accompanied by a table showing pending applications that had been held in suspense awaiting crystallization of the program for voluntary foreign credit restraint. Several of these proposed transactions were on the agenda for today's meeting, related memoranda from the Division of Examinations having been distributed.

Governor Robertson, in commenting on the recommendations in his memorandum, pointed out that the basic idea was that within the 5 per cent guideline banks should be more or less free to operate as they saw fit. However, some investments might be questionable from the standpoint of the national interest even if they could be accommodated within the 5 per cent. Therefore, he proposed to request, as a condition to consideration by the Board, that the applicant provide evidence that the transaction would be in the national interest.

Governor Mitchell expressed general agreement with the philosophy underlying the recommendations. He pointed out that in connection with some of the applications to be considered today the applicants had stated their intention of conforming to the 5 per cent guideline. One of the banks involved was among the large institutions that were known to be already beyond the 5 per cent figure, and the Board's guidelines contemplated reduction of outstanding foreign credits in such cases during the course of the next year. He would nevertheless be inclined to accept the statements of intent.

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Discussion of Governor Mitchell's point developed agreement that if the applications in question were approved by the Board, the intention stated by the applicants as to conformance with the foreign credit restraint program should be referred to in the letters indicating the Board's consent.

Question was raised whether there might be an element of discrimination if the Board used its regulatory authority over investments by Edge Act and agreement corporations to require assurances of compliance with the foreign credit restraint program. Leverage could thus be exerted on banks that had at some time in the past elected to conduct their foreign business through Edge Act and agreement subsidiaries, whereas banks that had chosen a different modus operandi for their foreign business were not subject to similar leverage. In response, it was pointed out that the Board's Regulation K contained a statement of national purpose and that the operations of Edge Act or agreement corporations therefore were presumed to be consistent with the national interest. Accordingly, even apart from the President's current program, administration of the Regulation was tied to regard for the national interest -- a fact of which the banking community was aware. And in the present circumstances the specifications of the national interest had been declared by the President of the United States.

Governor Shepardson commented on views he had heard expressed in some quarters that while the Federal Reserve was calling for a

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voluntary effort to restrain foreign credit, in pursuance of the President's program, in reality it was using an iron fist because, if it found banks reluctant to cooperate, the availability of credit through the discount window could be restricted. Governor Shepardson inquired about the response that would be considered most appropriate in such circumstances, and it was the consensus that the voluntary nature of the program should be emphasized, although it would not be prudent, of course, to imply that the Board was in any way precluded from taking any monetary policy action it thought called for in the light of national or international economic and financial developments. Comments were made also that discussion of the question whether the foreign credit restraint program was voluntary or involuntary tended to become an exercise in semantics. The crux of the matter was that the President had called for an effort to promote the national interest by improving the U. S. balance of payments. Implementation of that request was a matter of importance, and the Federal Reserve should exert vigorous leadership.

In the course of further discussion of the questions raised in Governor Robertson's memorandum, Governor Robertson made several comments reflecting his philosophy. He thought one could run into difficulty in debating unnecessarily whether the current foreign credit restraint program was in fact voluntary. It was expected, certainly, that financial institutions would adhere to the principles of the

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program, and the Federal Reserve should do everything possible to make the program effective because the balance of payments problem was serious enough to have caused the President to call for a national effort to stem the capital outflow. The Federal Reserve should watch closely to see what the banks were doing under the program, it should endeavor to make sure that the program was equitable as well as effective, and it should not be deterred by charges that the program was really involuntary. The situation might develop to a point where some other approach would have to be adopted, but an effort was now being made to do the job on a voluntary basis; and in his opinion the voluntary program had the support of the financial fraternity.

When it came to the matter of applications by Edge Act and agreement corporations that required specific approval, a discretionary action by the Board was involved, Governor Robertson noted. The Board should exercise this discretion with an eye to the balance of payments program that had been developed out of consideration of the national interest, and this meant to him that the Board should have available in considering applications a statement by the applicant relating the proposal to the national interest as it might be construed under current circumstances. This should include an assurance that the applicant intended to cooperate with the guidelines that had been established for all banking institutions under the voluntary program. It did not mean that the Board would be substituting its discretion for that of

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the applicant corporation, but rather that the Board should have appropriate evidence available for its use in deciding whether to approve or disapprove a particular application. In other words, before approving an application the Board should be satisfied that the proposal was in the national interest, in line with the statement of national purpose included in Regulation K, and at the present time it had been declared by the President to be in the national interest that the outflow of capital be curtailed, with reliance on the voluntary program as a means of achieving this objective. If the Board were to approve proposed investments without assurance that they were in the national interest, the Board would place itself in an unfavorable light. As to investments by Edge Act and agreement corporations that were permissible under the general consent provisions of Regulation K, it would appear to be the best approach to send a letter to all Edge Act and agreement corporations indicating that the Board expected investments made under the general consent provisions to fall within the quantitative guideline of the voluntary program, whether a target was established for the Edge Act or agreement corporation separately or for the subsidiary corporation and its parent bank on a consolidated basis. Once this matter had been called to the attention of the Edge Act and agreement corporations, developments could be watched. If it appeared from developments that the Board's approach should be changed in any way, the matter could be given further consideration by the Board.

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At the conclusion of the discussion there was unanimous agreement that Governor Robertson's recommendations should be followed. A copy of the letter sent to all Edge Act and agreement corporations pursuant to his third recommendation is attached as Item No. 6. Copies of the letter were sent to all Federal Reserve Banks for their information. In the light of the recommendations, the following items, copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

	<u>Item No.</u>
Letter to Bank of America, New York, New York, granting consent to purchase stock of (1) Banco Soler y Torra, S. A., Madrid, Spain, and (2) a proposed industrial and business (investment) bank to be named Banco Intercontinental Espanol, to be organized in Madrid.	7
Letter to International Banking Corporation, New York, New York, granting consent to purchase additional stock of The First National City Bank of New York (South Africa) Limited, Johannesburg, South Africa.	8
Letter to International Banking Corporation, New York, New York, granting consent to purchase shares of Hill, Samuel & Co. Ltd., London, England.	9
Letter to International Banking Corporation, New York, New York, granting an extension of time within which The Bank of Monrovia, Monrovia, Liberia, may purchase stock of Liberian Bank for Industrial Development and Investment, Monrovia, Liberia.	10
Letter to First National City Bank, New York, New York, granting permission to increase its investment in stock of International Banking Corporation, New York, New York.	11

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Pursuant to the understanding reached during discussion of Governor Robertson's recommendations, Items 7, 8, and 9 included language indicating that the Board had noted the assurances contained in statements by the applicants concerning their intention to conform to the guidelines of the voluntary foreign credit restraint effort.

Mr. Farrell, Director, Division of Bank Operations, and Mr. Morgan, Staff Assistant, Board Members' Offices, then entered the room.

Edge corporation investment question (Item No. 12). There had been distributed a memorandum dated February 5, 1965, from the Division of Examinations and the Legal Division regarding a request by the Federal Reserve Bank of Philadelphia, on behalf of The Company for Investing Abroad (an Edge Act subsidiary of Fidelity-Philadelphia Trust Company), for an advisory opinion regarding investment by the Company in an issue of convertible debentures of Tubos de Acero de Mexico, S. A. The Edge corporation did not participate in the initial offering, but requested guidance for the future.

The first question involved was whether the securities would be regarded as essentially a domestic rather than a foreign issue, principally because the debentures themselves, as well as the securities into which they were convertible, were listed on the American Stock Exchange. If the issue were deemed domestic, it would not fall within the permissible uses of Edge corporation funds within the United States as defined in the Board's Regulation K, Corporations Engaged in

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Foreign Banking and Financing under the Federal Reserve Act. The memorandum cited statutory and regulatory provisions indicating that Edge corporations may invest in debt securities issued to finance foreign activities regardless of whether or not they are listed on an exchange and regardless of from whom purchased. In the Legal Division's view the fact that an obligation was offered through a stock exchange did not in itself convert an investment in that obligation from a foreign into a domestic transaction, although the legality of a given investment should be determined on an ad hoc basis according to substantive aspects rather than form.

The second point at issue related to the convertibility feature of the debentures. The Legal Division's view, in essence, was that the conversion rights were rights to acquire shares within the meaning of Regulation K and were to be treated as shares for purposes of the Regulation. If an Edge corporation intended to acquire conversion rights through a broker, dealer, or stock exchange firm or representative, specific consent would be necessary, since such an acquisition might not be made in that manner under the general consent provisions.

A draft of letter to the Federal Reserve Bank of Philadelphia reflecting the Legal Division's conclusions was attached to the memorandum.

After comments by Messrs. Forrestal and Goodman there was a discussion during which possible implications from the standpoint of

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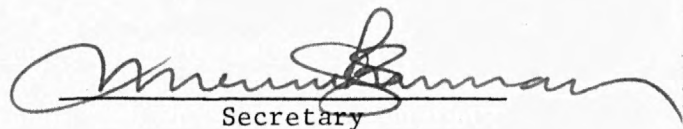
the voluntary foreign credit restraint effort were mentioned, and it was agreed that the Board's letter should include a reference to the voluntary program. Subject to the addition of such a reference, the letter was approved unanimously. A copy of the letter in the form transmitted is attached as Item No. 12.

Directors Day. There had been distributed a memorandum dated March 5, 1965, in which Mr. Morgan presented the tentative program proposed for the meeting with new Federal Reserve Bank and branch directors on March 25 (to be preceded by a reception and dinner on the evening of March 24).

Subject to certain changes agreed upon during discussion, it was understood that the tentative program was generally satisfactory and that further planning would proceed on this basis.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a letter to the Federal Reserve Bank of Philadelphia (attached Item No. 13) approving the appointment of John M. Sanders as assistant examiner.


Secretary

**BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM**

WASHINGTON, D. C. 20551

Item No. 1
3/8/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 8, 1965

Board of Directors,
The County Trust Company,
White Plains, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The County Trust Company, White Plains, New York, of a branch in the vicinity of the intersection of Macy Street and Halstead Avenue, Town of Harrison (unincorporated area), Westchester County, New York, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
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.)



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

Item No. 2
3/8/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 8, 1965

Board of Directors,
Manufacturers and Traders
Trust Company,
Buffalo, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Manufacturers and Traders Trust Company, Buffalo, New York, of a branch (drive-in facility) in the Transitown Plaza Shopping Center at the southeast corner of the intersection of Route 5 (Main Street) and Route 78 (Transit Road), Town of Clarence (unincorporated area), Erie County, New York, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
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.)

**BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551**

Item No. 3
3/8/65



**ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD**

March 8, 1965

**Board of Directors,
United California Bank,
Los Angeles, California.**

Gentlemen:

The Board of Governors of the Federal Reserve System extends to December 31, 1965, the time within which United California Bank, Los Angeles, California, may establish a branch in the vicinity of the southeast corner of the intersection of Pacific and Yokut Avenues, Stockton, California.

Very truly yours,

(Signed) Karl E. Bakke

**Karl E. Bakke,
Assistant Secretary.**

Item No. 4
3/8/65

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 9, 1965

Board of Directors,
United California Bank,
Los Angeles, California.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to December 31, 1965, the time within which United California Bank, Los Angeles, California, may establish a branch in the vicinity of the intersection of Yorba Linda Boulevard and Rose Drive, Placentia, California.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

T E L E G R A M
LEASED WIRE SERVICEItem No. 5
3/8/65BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

March 8, 1965

HALL -- CLEVELAND

KEBJE

- A. Society Corporation, Cleveland, Ohio.
- B. Society National Bank of Cleveland, Cleveland, Ohio.
- C. Prior to issuance of permit authorized herein, Applicant shall execute and deliver to you, in duplicate, an agreement in form accompanying Board's letter S-964 (F.R.L.S. #7190).

(Signed) Karl E. Bakke

BAKKE

Definition of KEBJE

The Board authorizes the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B" at all meetings of shareholders of such bank(s), subject to the condition(s) stated below after the letter "C". The period within which a permit may be issued pursuant to this authorization is limited to thirty days from the date of this telegram unless an extension of time is granted by the Board. Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

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

Item No. 6
3/8/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 8, 1965.



Dear Sir:

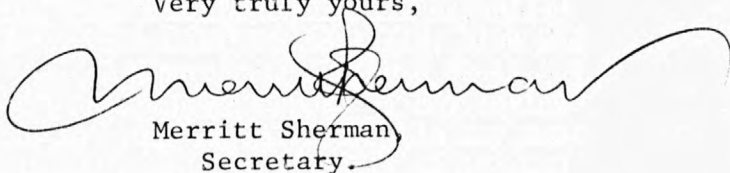
Enclosed is a press release dated March 5, 1965, announcing that the Board of Governors of the Federal Reserve System had issued a set of 14 guidelines for commercial banks to follow in carrying out their part in the President's program to improve the nation's balance of payments position. A set of the guidelines is enclosed.

As stated in Guideline (11), Edge Act and Agreement Corporations are included in the voluntary credit restraint effort. The foreign loans and investments of such a Corporation may be combined with those of the parent bank for the purposes of the program, or separate targets may be set for the parent bank and the subsidiary.

General consents.-- With respect to investments permitted by the general consent contained in Section 211.8(a) of Regulation K, as revised effective September 1, 1963, it is expected that investments made under such provisions will not cause the Corporations to exceed their targets under the voluntary restraint program.

Specific consents.-- With respect to stock investments by Corporations requiring specific consent or approval by the Board, applicants should provide written assurances that, if approved, the proposed investments would not cause the total credits to foreigners (as defined for purposes of the voluntary program) to exceed 105 per cent of the amount outstanding on December 31, 1964. Before the Board acts on requests for specific consent or approval to investments by Corporations in the shares of foreign banks and corporations, the Board should be presented with information which leads the applicant to believe that the proposed investment would be in the national interest.

Very truly yours,


Merritt Sherman
Secretary.

Enclosure.

TO ALL EDGE ACT AND AGREEMENT CORPORATIONS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 8, 1965.

Bank of America,
41 Broad Street,
New York, New York. 10015

Gentlemen:

In accordance with your request of January 19, 1965, transmitted through the Federal Reserve Bank of New York, and on the basis of the information furnished, the Board of Governors grants consent for Bank of America ("B of A") to purchase and hold:

- 1) 50 per cent of the capital stock of Banco Soler y Torra, S.A. ("Banco"), Madrid, Spain, at a cost of approximately US\$500,000; and
- 2) 50 per cent of the capital stock of a proposed industrial and business (investment) bank to be named "Banco Intercontinental Espanol" ("BIE") to be organized in Madrid, Spain, with a branch in Barcelona, Spain, at a cost of Pesetas 250,000,000 (approximately US\$4,175,000 equivalent),

provided such shares of capital stock are acquired within one year from the date of this letter.

The Board also approves the purchase and holding of shares of BIE within the terms of the above consent in excess of ten (10) per cent of B of A's capital and surplus.

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

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

- 2) That, when required by the Board of Governors, B of A will cause Banco (a) to permit examiners selected or auditors approved by the Board of Governors to examine Banco, and (b) to furnish the Board of Governors with such reports as it may require from time to time;
- 3) That B of A shall not carry on its books the shares of Banco at a net amount in excess of its proportionate share of the book capital accounts of Banco, after giving effect to the elimination of all known losses; and
- 4) That any share acquisitions or dispositions by Banco be reported under Section 211.8(d) of Regulation K in the same manner as if Banco 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 BIE by B of A is granted subject to the same conditions prescribed in the next above paragraph with respect to the shares of Banco, except for the substitution of "BIE" for "Banco" where it appears.

Subject to continuing observation and review, the Board suspends, until further notice the provisions of subparagraph (1) of the third paragraph of this letter so far as they relate to restrictions on loans granted by Banco or BIE in Spain in the currency of that country.

Upon completion of the proposed acquisitions, it is requested that the Board of Governors be furnished, through the Federal Reserve Bank of New York, with a translation of the Articles of Association and By-Laws of Banco and BIE.

The foregoing consents and approval have been given with the understanding, based on Mr. Coughran's teletype message of March 3, 1965, that the two initial investments totalling approximately \$1,543,750 can be accommodated within the five per cent volunteer ceiling on your overseas loans and investments, and on the assumption that the balance of the proposed investment in BIE, totalling \$3,131,250, can be deferred until 1968.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

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Item No. 8
3/8/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 8, 1965.



International Banking Corporation,
399 Park Avenue,
New York 22, New York.

Gentlemen:

In accordance with the request contained in your letter of January 25, 1965, transmitted through the Federal Reserve Bank of New York, and on the basis of information furnished, the Board of Governors grants consent for your Corporation to purchase and hold additional capital stock of The First National City Bank of New York (South Africa) Limited in the amount of South African Rands 500,000 (approximately US\$700,000 equivalent).

The foregoing consent has been given with the understanding, based on a letter dated March 1, 1965, from Mr. Carl W. Desch, Cashier, First National City Bank, that First National City Bank confirms its pledge to cooperate in the voluntary foreign credit restraint program instituted by the Administration and to use every reasonable effort to maintain outstanding credits to foreigners during 1965 at a level not exceeding 5 per cent above the December 31, 1964, outstandings. It is also understood from Administrative Vice President Vinton of International Banking Corporation that First National City Bank interprets "outstanding credit to foreigners" to include investments of its Edge Act and Agreement Corporations.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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Item No. 9
3/8/65

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 8, 1965.



International Banking Corporation,
399 Park Avenue,
New York, New York 10022.

Gentlemen:

In accordance with the request contained in your letter of January 26, 1965, transmitted through the Federal Reserve Bank of New York, and on the basis of additional information furnished, the Board of Governors grants consent for your Corporation to purchase and hold 1,050,000 ordinary shares, par value 5 shillings each, of Hill, Samuel & Co. Ltd., London, England, at a cost of approximately US\$2,205,000, provided such shares are acquired within one year from the date of this letter.

The Board's consent is granted subject to the same conditions prescribed in the Board's letter of January 30, 1963, granting consent to the purchase of shares of M. Samuel & Co. Ltd.

The Board also approves the purchase and holding of shares of Hill, Samuel & Co. Ltd. within the terms of the above consent in excess of 15 per cent of your Corporation's capital and surplus.

The foregoing consent and approval have been given with the understanding, based on a letter dated March 1, 1965, from Mr. Carl W. Desch, Cashier, First National City Bank, that First National City Bank confirms its pledge to cooperate in the voluntary foreign credit restraint program instituted by the Administration and to use every reasonable effort to maintain outstanding credits to foreigners during 1965 at a level not exceeding 5 per cent above the December 31, 1964 outstandings. It is also understood from Administrative Vice President Vinton of International Banking Corporation that First National City Bank interprets "outstanding credits to foreigners" to include investments of its Edge Act and Agreement Corporations.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 10
3/8/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 8, 1965

International Banking Corporation,
399 Park Avenue,
New York 22, New York.

Gentlemen:

Reference is made to your letter of February 5, 1965, transmitted through the Federal Reserve Bank of New York, requesting an extension of time within which The Bank of Monrovia, Monrovia, Liberia, may purchase \$120,000 of the capital stock of the Liberian Bank for Industrial Development and Investment, Monrovia, Liberia.

In accordance with your request and on the basis of the information furnished, the Board of Governors extends to March 4, 1966, the time within which The Bank of Monrovia, Monrovia, Liberia, may purchase \$120,000 of the capital stock of the Liberian Bank for Industrial Development and Investment, Monrovia, Liberia, pursuant to the consent granted in the Board's letter of March 4, 1964.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 11

3/8/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 8, 1965.

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 January 25, 1965, 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 \$17,018,000 to \$26,018,000 the amount it may invest in the stock of International Banking Corporation, New York, New York.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 12
3/8/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 8, 1965.

Mr. Joseph R. Campbell, Vice President,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania. 19101

Dear Mr. Campbell:

Reference is made to your letter of January 13, 1964, transmitting letters dated January 7 and 10, 1964, from The Company for Investing Abroad, Philadelphia, Pennsylvania, requesting an advisory opinion with respect to a then forthcoming issue of Convertible Debentures of Tubos de Acero de Mexico, S. A. ("TAMSA"), Mexico, D. F. Mexico, due in 1979. It was understood that COMINA proposed to invest approximately \$200,000 in the Debentures provided the purchase was made at the initial offering.

The review of the proposal was not completed in time for COMINA to be informed as to the Board's views so as to participate in the initial offering, but you have advised informally that COMINA would be interested in the Board's views as a matter of principle, in case similar offerings might become available in the future.

The preliminary prospectus, dated December 11, 1963, published by Kidder, Peabody & Co., described the proposed issue; a registration statement had been filed with the Securities and Exchange Commission; and COMINA advised that a similar issue of Convertible Debentures had been privately placed in February 1963 and that a number of Edge Act corporations purchased portions of the earlier issue.

From the information submitted and otherwise available, it was understood that the Debentures would be convertible at any time into TAMSA's American Depositary Shares Series A and American Depositary Shares Series B, or at holder's request into Series A stock and Series B stock. TAMSA had made application for listing, on the American Stock Exchange, of both the Debentures and the American Depositary Receipts evidencing the American Depositary Shares Series A and the American Depositary Shares Series B.

The prospectus indicated that a portion of the proceeds of the sale of the Debentures would be used to repay notes due banks and other financial institutions and \$3,900,000 to pay for part of the cost of TAMSA's expansion program.

Mr. Joseph R. Campbell

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From published reports, it is understood that TAMSA's Convertible Debentures 7s, 1/1/79 were offered in the amount of \$8,000,000 on February 7, 1964, priced to the public at 101 to yield 6.89 per cent to maturity, and to the issuer at 95.5243, representing an interest cost of about 7.50 per cent. It is noted that the Debentures will be convertible at any time into 64 1/2 American Depositary Shares, Series A, and 64 1/2 American Depositary Shares, Series B (or at holder's request into the Series A stock and Series B stock) at a conversion price of \$7.75 per American Depositary Share (129 ADS per \$1,000 Debentures), or about 12 per cent above the then recent price for the American Shares.

Section 25(a) of the Federal Reserve Act grants to Edge corporations the power, subject to Board regulations, "to purchase and sell, with or without its indorsement or guaranty, securities, including the obligations of the United States or of any State thereof but not including shares of stock in any corporation except as herein provided . . ." Regulation K does not contain any restriction of this statutory grant of power based on whether or not the debt securities are listed, or whether or not they are acquired through a broker, dealer, or stock exchange firm. On the contrary, Section 211.7(d)(2) provides that an Edge corporation may acquire obligations "growing out of transactions it could have financed at inception under subparagraph (1) of this paragraph." Thus, Edge corporations may invest in debt securities issued to finance foreign activities, regardless of whether or not they are listed on an exchange and regardless of from whom purchased.

The convertibility feature of the Debentures in question raises a distinct and separable legal issue. The conversion rights are "rights to acquire shares" within the meaning of the last sentence of Section 211.8(c)(2) which provides that any such rights are to be treated as "shares" for the purposes of Section 211.8. Therefore, any acquisition of such conversion rights, regardless of their imputed value, if any, are to be regarded as an acquisition of "shares" and would either have to qualify under the general consent provisions of Section 211.8(a) or be the subject of a prior specific consent of the Board under Section 211.8(b). If it should be the intention of an Edge corporation to acquire such conversion rights "through a broker, dealer, or stock exchange firm or representative," specific consent would be necessary, since such an acquisition may not be made in that manner under the general consent provisions of the Regulation.

In summary, neither Section 25(a) nor Regulation K prevents, or requires Board consent to, investments by Edge corporations in nonconvertible debt obligations. Convertible obligations are subject either to the general or specific consent provisions of Section 211.8. When, however, convertible obligations are to be acquired through a stock exchange firm, Section 211.8 of Regulation K requires that the Board's prior specific consent be obtained with respect to the share rights so acquired.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. Joseph R. Campbell

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In view of the fact that COMINA has indicated to you a desire to be informed as to the Board's views as a matter of principle, it is suggested that you inform COMINA as to the substance of the foregoing.

The views expressed herein should, of course, be read in the light of the President's program for voluntary curtailment of foreign credit by banks and Edge Act and Agreement Corporations.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

Item No. 13
3/8/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 8, 1965.

CONFIDENTIAL (FR)

Mr. Joseph R. Campbell, Vice President,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania. 19101

Dear Mr. Campbell:

In accordance with the request contained in your letter of March 3, 1965, the Board approves the appointment of John M. Sanders as an assistant examiner for the Federal Reserve Bank of Philadelphia. Please advise the effective date of the appointment.

It is noted that Mr. Sanders is indebted to Industrial Valley Bank and Trust Company, Jenkintown, Pennsylvania, a nonmember bank. Accordingly, the Board's approval of the appointment of Mr. Sanders is given with the understanding that he will not participate in any examinations of that bank until his indebtedness has been liquidated.

The authorization given your bank to designate Mr. Sanders as a special assistant examiner will be canceled as of the effective date of his appointment as an assistant examiner.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.