Minutes for February 25, 1966

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin
Gov. Robertson
Gov. Balderston
Gov. Shepardson
Gov. Mitchell
Gov. Daane
Gov. Maisel
Minutes of the Board of Governors of the Federal Reserve System on Friday, February 25, 1966. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Robertson
Mr. Shepardson
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. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel Administration
Mr. Hexter, Associate General Counsel
Messrs. O'Connell, Shay, and Hooff, Assistant General Counsel
Mr. Sammons, Associate Director, Division of International Finance
Messrs. Leavitt and Thompson, Assistant Directors, Division of Examinations
Miss Eaton, General Assistant, Office of the Secretary
Mr. Forrestal and Miss Hart of the Legal Division
Messrs. Egertson, Lyon, Maguire, and Poundstone of the Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Atlanta on February 22, 1966, and by the Federal Reserve Banks of Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas on February 24, 1966, 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.

Approved items. The following items, copies of which are attached to these minutes under the respective item numbers indicated,
were approved unanimously after consideration of background material that had been distributed and clarification of points raised by members of the Board:

<table>
<thead>
<tr>
<th>Item No.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Letter to Girard Trust Bank, Philadelphia, Pennsylvania, granting an extension of time to establish a branch in the Blue Bell Shopping Center, Grovers Avenue at 70th Street.</td>
</tr>
<tr>
<td>2</td>
<td>Letter to United California Bank, Los Angeles, California, approving the establishment of a branch in Porterville.</td>
</tr>
<tr>
<td>3</td>
<td>Letter to Wells Fargo Bank International Corporation, San Francisco, California, approving an amendment to its Articles of Association.</td>
</tr>
<tr>
<td>4</td>
<td>Letter to Federated Investments, Inc., Opp, Alabama, granting a temporary determination exempting it from all holding company affiliate requirements except for the purposes of section 23A of the Federal Reserve Act.</td>
</tr>
<tr>
<td>5</td>
<td>Letter to the Federal Reserve Bank of San Francisco approving the appointment of A. B. Merritt as Vice President in charge of the bank examination function, and approving the payment of salaries to H. B. Jamison as Assistant Vice President and to R. A. Karlsson as Chief Examiner at the respective annual rates fixed by the Board of Directors.</td>
</tr>
</tbody>
</table>

Report on competitive factors. A report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The Peoples National Bank of State College into The First National Bank of State College, State College, Pennsylvania, was approved unanimously for transmittal to the Comptroller, the conclusion being stated as follows:
Consummation of the merger of The First National Bank of State College and The Peoples National Bank of State College would eliminate significant competition between the two institutions while reducing from three to two the number of banking alternatives in the largest trade and population center in the county. At more than double the size of the next largest such institution, the resulting bank would rank first among the Centre County-headquartered banks in terms of offices, loans, and deposits of individuals, partnerships, and corporations. The net effect on competition would be substantially adverse.

First National Corporation. By order dated February 25, 1965, the Board approved an application by First National Corporation, Appleton, Wisconsin, to become a bank holding company through acquisition of shares of two banks, one being the proposed Valley National Bank of Appleton. The Board's order provided that Valley National Bank was to be opened for business within six months of the date of the order, but this period of time had twice been extended, most recently until March 1, 1966.

Mr. O'Connell reported that the Comptroller of the Currency's certificate authorizing Valley National Bank to open for business reportedly had not yet been received by the organizers, thus raising the question whether it would be possible to open the bank for business within the time prescribed. He recommended that, if necessary, the period of time provided in the Board's order for the opening of the bank be further extended for ten days, and this recommendation was approved unanimously.

Secretary's Note: It subsequently developed that the extension of time was not necessary.
Draft bill to amend Federal Deposit Insurance Act. At its meeting on February 18, 1966, the Board approved the sending of a letter to the Budget Bureau regarding a bill proposed by the Federal Deposit Insurance Corporation that would have given the Corporation authority to issue cease and desist orders against any insured bank and to suspend or remove officers or directors of such banks. The Board advised the Bureau that it favored legislation along such lines, but that it believed the general powers of prohibition and enforcement proposed in the draft bill should be conferred on the three Federal bank supervisory agencies with respect to the banks under their respective jurisdictions. The Board did not comment on specific provisions of the draft bill.

Mr. O'Connell now reported on interagency staff meetings that had been held on the matter, the result of which was the drafting of revised legislation. A principal accomplishment of the negotiations was that each of the Federal banking agencies would now be given authority to issue cease and desist orders against banks under their respective jurisdictions, as well as authority to suspend or remove officers or directors for violations of law or for unsafe or unsound practices. The agencies would also be given subpoena power.

The reason for bringing the matter before the Board at this time, Mr. O'Connell said, was that the Budget Bureau wanted the several interagency representatives, at the next meeting, to be able to express the views of their principals regarding the revised draft legislation.
Mr. O'Connell requested authority to say that while the members of the Board had not yet had an opportunity to review the detailed provisions of the bill, in principle the Board favored legislation giving the Board authority to issue cease and desist orders against State member banks. The Federal Deposit Insurance Corporation would like to have an overriding authority to issue such orders against any insured bank, but he would propose to express opposition on behalf of the Board. Similarly, question might be raised about the possibility of giving the Corporation authority to issue notice that a cease and desist order would be issued or that suspension of an officer or director would take place, whereupon the banking agency having jurisdiction with respect to the particular bank would be compelled to hold a hearing. Mr. O'Connell said he would like to oppose such a provision, the effect of which would be to require the Board to hold hearings not of its own choosing.

Finally, Mr. O'Connell said, there was the question whether the Board would favor legislation giving it the power to issue subpoenas, take depositions, and conduct investigations in connection with proceedings such as would occur under the terms of the proposed bill. If the Board were given authority to issue subpoenas in connection with the conduct of a hearing to remove a bank officer or director, then as a matter of due process of law the other party should also have the right to subpoena documents and witnesses.

In reply to a question, Mr. O'Connell pointed out that this might mean that the other party could subpoena Board records that had
not previously been made public. The subpoenas might relate not only to the records on the individual concerned but to other records of his bank, and conceivably to records of affiliated banks. In reply to another question, he said that the supervisory agency probably would not have as much need for the subpoena power as the respondent. Asked why, if this was true, the subpoena power should be sought, he said that if the Board instituted a hearing to remove an officer or director of a bank, it might need to compel the testimony of other officers or directors, or in fact the testimony of persons from outside the bank.

At the conclusion of the discussion, Mr. O'Connell was authorized to indicate at the next interagency meeting that the Board would be generally favorable to legislation containing provisions such as he had described and that the Board concurred in the positions he proposed to take with respect to particular issues. It was understood that Mr. O'Connell would endeavor to work into the draft legislation such safeguards as seemed appropriate with respect to the subpoena power.

Section 6(a)(1) of Holding Company Act (Items 6-8). There had been distributed a memorandum from the Legal Division dated February 23, 1966, regarding the applicability of section 6(a)(1) of the Bank Holding Company Act to investments in Edge subsidiaries. The National Shawmut Bank of Boston, Massachusetts, a subsidiary of a bank holding company, had requested the Board to decide that section 6(a)(1), which prohibits a subsidiary bank from investing in its bank holding company
or in another subsidiary of the holding company, should not be interpreted as preventing the bank from investing in the shares of an Edge corporation. Such a decision would reverse a 1963 unpublished interpretation in which the Board expressed the view that it was unlawful for a bank subsidiary of a holding company to purchase stock of an Edge corporation if, as a result of the purchase, such corporation would be a "subsidiary" as defined in section 2(d) of the Holding Company Act.

The reason why the question had arisen was briefly as follows. In December 1965, National Shawmut Bank applied for permission to organize an Edge corporation under the name of Shawmut International Corporation, pursuant to the provisions of section 25(a) of the Federal Reserve Act. The fact that the bank was a subsidiary of Shawmut Association, Inc., was overlooked and a preliminary permit was issued. Subsequently the oversight was discovered and the bank was apprised of the situation. The problem was the subject of correspondence with the bank, and representatives of the bank had met with the Board's staff.

The memorandum from the Legal Division outlined several "practical considerations" urged by the bank as reasons for permitting it to go forward with the operation of the Edge corporation. The memorandum also presented in some detail a number of legal arguments for and against a reversal of the 1963 interpretation. On balance, it was the opinion
of the author of the memorandum (Mr. Forrestal) that the Board would be legally warranted in reversing its 1963 interpretation and holding that a banking subsidiary of a bank holding company could own all of the stock of an Edge corporation.

After Mr. Forrestal had reviewed the background of the matter, the "practical considerations" urged by National Shawmut, and the main legal arguments for and against reversing the position taken in 1963, Mr. Hackley commented that a close question was involved. It was difficult to reach the conclusion recommended in the memorandum from a literal reading of the statute. However, this was a criminal statute and therefore could be construed more narrowly than otherwise. It could be argued that the Congress did not intend to repeal by implication the authority of national banks to invest in foreign banking corporations. There were also reasons that could be cited against a liberal construction of the statute but on balance, having in mind that this was a criminal statute and looking at the probable intent of the Congress, as developed by the legislative history, it seemed to him a reasonable legal argument could be made in support of the liberal interpretation.

Mr. Hexter observed that there was a rather general opinion that it would be desirable to repeal the pertinent section of the Holding Company Act. Nevertheless, the section was still in the Act, and he found it difficult to escape from the words of the statute. Their purpose
was to keep a bank in a holding company system from using its funds in ways that might benefit the holding company but jeopardize the bank. In a number of cases, he added, the courts had held that inept drafting was involved where, despite the literal language of a statute, it was evident that the purpose of the legislature could not possibly have reached to the situation presented. To some extent, that argument might be made here. But if a bank could invest its funds in an Edge corporation, the subsidiary could do things that the bank could not do itself. Funds could be used to take over loans from other subsidiaries of the bank holding company, and thus deposits in the national bank could be jeopardized. It seemed difficult to find that the purpose of the Congress could not conceivably have included this situation, and therefore he found it difficult to say that the Board was permitted to disregard the language of the statute. Further, a reversal of the Board's position would involve more than just the 1963 ruling, because the reasoning would seem to reach beyond wholly-owned Edge corporations. Finally, if the 1963 ruling created extreme difficulty from a practical point of view, one might feel more sympathetically inclined toward reversal. However, a number of other holding companies had been faced with the same situation and had placed ownership of the Edge corporation in the holding company itself.

Mr. O'Connell said he was closer to Mr. Hexter's position than the position expressed in the distributed memorandum.
Mr. Solomon commented that even if a literal reading of the statute were assumed to reach to this kind of situation, he felt the intent of the statute clearly did not. Mr. Hexter had suggested that there could be circumstances in which acquisition of an Edge corporation by a subsidiary bank might make it possible for the holding company to drain funds out of the subsidiary bank in a way in which the bank could not otherwise be drained. However, Mr. Solomon said, he could not envisage such a situation. If a bank wished to acquire an Edge corporation, he saw no reason why its being in a holding company system should militate against that. As to the statute, it said that a bank must not invest any of its funds in the capital stock, bonds, debentures, or other obligations of a bank holding company of which it was a subsidiary, or of any other subsidiary of the bank holding company system. The question was whether the bank was really buying shares of another subsidiary if it owned the subsidiary. Actually, the subsidiary was nothing but a department of the bank itself. In his opinion, therefore, it could be reasonably argued from the language of the statute that when a bank bought the shares of a wholly-owned subsidiary, it was not buying shares of another subsidiary of the bank holding company.

Mr. Solomon also expressed the view that the practical considerations urged by National Shawmut Bank should not be dismissed too lightly. If the Edge corporation was placed under the small holding company, this could present complications from the standpoint of planning financial operations.
Mr. Shay said he regarded the 1963 interpretation as representing a literal, unyielding approach to the problem, particularly in view of the Board's authority with respect to the chartering and regulation of Edge corporations. It seemed to him that the situation of a wholly-owned Edge corporation was so far removed from the basic purpose of the statute that there was justification for taking the position recommended in the memorandum.

Miss Hart agreed but suggested that the interpretation be so restricted as to have applicability only to a wholly-owned Edge corporation, since a national bank could invest in a rather wide variety of subsidiaries and an unnecessarily broad interpretation might embarrass the Board on some occasion in the future.

There was general agreement with Miss Hart's observation, and Mr. Hackley suggested language to meet the point.

After further general discussion, the members of the Board expressed their views, and Governor Daane said his basic philosophy was that if the Board could justify a liberal interpretation he would go along with the recommendation of Mr. Hackley.

Governor Robertson agreed that investments in Edge corporations should, in principle, be excluded but said he was not inclined to try to read around the literal language of a statute, especially when the Board had interpreted the statute and applied it in another case. As he saw it, the purposes of a reversal here would be to cover up the
Board's mistake and to save some taxes for the holding company, and he did not think either reason was sufficient justification for interpreting the statute differently than it had been interpreted in the past. He would, in writing to the bank, apologize for the mistake and add that the Board was sympathetic to the view that the bank should not be prohibited from having an Edge corporation, as reflected by the fact that the Board had recommended that the Bank Holding Company Act be amended. If the matter should be litigated and the courts held that section 6(a)(1) of the Holding Company Act was not intended to apply to investments in Edge corporations, that would be fine, but he did not think the Board should make such an interpretation.

Governor Shepardson said his inclination was toward what he felt would be a justifiable interpretation of the law. He considered it difficult to find in the present law an intent to reach this type of situation. He would follow the recommendation of the Legal Division, with the amendment suggested by Mr. Hackley.

Governor Daane agreed with Governor Shepardson, adding that it seemed to him that if the Board applied a completely literal interpretation in these circumstances, it might find itself in a bad posture. Chairman Martin concurred.

Accordingly, approval was given, Governor Robertson dissenting, to a letter to counsel for National Shawmut Bank of Boston in the form attached as Item No. 6, with the understanding that an interpretation
based thereon would be published in the Federal Register and the Federal Reserve Bulletin.

The foregoing action having been taken, approval also was given to a letter to Shawmut International Corporation transmitting a final permit authorizing the corporation to begin business. A copy is attached as Item No. 7.

An application had been received requesting consent for Shawmut International Corporation to acquire shares of European Enterprises Development Company, S.A., Luxembourg, and a distributed memorandum from the Division of Examinations recommended approval. In view of the outcome of the preceding discussion, approval was given to a letter to Shawmut International Corporation granting permission to make the investment. A copy is attached as Item No. 8.

The meeting then adjourned.

Secretary's Notes: On February 24, 1966, Governor Shepardson approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:

**Appointments**

Rosemary Lee Friend as Statistical Clerk, Division of Research and Statistics, with basic annual salary at the rate of $4,641, effective the date of entrance upon duty.

Marny Lou Spillers as Editorial Clerk, Division of Research and Statistics, with basic annual salary at the rate of $4,797, effective the date of entrance upon duty.

**Salary increase**

Linda Ingram, Stenographer, Division of Research and Statistics, from $4,149 to $4,641 per annum, effective February 27, 1966.
Salary increase

Bernard A. Thomasson, Digital Computer Systems Operator (Trainee), Division of Data Processing, from $5,109 to $5,523 per annum, with a change in title to Digital Computer Systems Operator, effective February 27, 1966.

Permission to engage in outside activity

Nathan L. Hunter, Messenger, Division of Administrative Services, to engage in custodial work on a part-time basis.

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

Memorandum from the Division of Administrative Services dated February 24, 1966, recommending that arrangements be made with a local locksmith firm to furnish and install locking devices on ten designated doors in the Federal Reserve Building at a total cost of $2,258.70. This action also constituted approval of any resultant overexpenditure in the Building Repairs and Alterations Account of the 1966 budget of the Division.

Memorandum from the Office of the Secretary dated February 7, 1966, recommending that an additional stenographic position at Grade FR-4 be established in the Secretarial Section.

Memorandum from the Division of Research and Statistics dated February 18, 1966, recommending that Susan S. Burr be appointed as a consultant to that Division effective to December 31, 1966, the appointment to be on a temporary contractual basis with compensation at the rate of $50 per day for each day worked for the Board. It was understood that no travel would be involved.

Memoranda recommending the following actions relating to the Board's staff:

Appointments

Mary E. Chester as Minutes Clerk, Office of the Secretary, with basic annual salary at the rate of $4,641, effective the date of entrance upon duty.

Lyndall K. Johns as Indexing and Reference Assistant, Office of the Secretary, with basic annual salary at the rate of $5,181, effective the date of entrance upon duty.
2/25/66

Appointments (continued)

Duane Lougee as Economist, Division of Research and Statistics, with basic annual salary at the rate of $7,479, effective the date of entrance upon duty.

Robert B. Sampson as Analyst, Division of Bank Operations, with basic annual salary at the rate of $5,702, effective the date of entrance upon duty.

Salary increases, effective February 27, 1966

Eva Louise Jarvis, Minutes Clerk, Office of the Secretary, from $4,641 to $4,797 per annum.

Dolores Ann Winkler, Secretary, Office of the Secretary, from $5,702 to $5,894 per annum.

Frank de Leeuw, Economist, Division of Research and Statistics, from $15,696 to $16,204 per annum.

Edward A. Manookian, Economist, Division of Research and Statistics, from $13,815 to $14,250 per annum.

Jane C. Charuhas, Training Technician, Division of Examinations, from $6,683 to $6,890 per annum.

Glenn L. Hogle, Personnel Technician, Division of Personnel Administration, from $7,733 to $7,987 per annum.

Charles E. Evans, Operator, Duplicating Devices (Trainee), Division of Administrative Services, from $4,909 to $5,221 per annum, with a change in title to Operator, Duplicating Devices.

Barbara Fee McClelland, Composition Clerk, Division of Administrative Services, from $5,181 to $5,352 per annum.

Louis S. Zeller, Digital Computer Programmer Supervisor, Division of Data Processing, from $8,961 to $9,267 per annum.

Transfer

George J. Konomos, Economist, Division of Research and Statistics, from the Consumer Credit and Finances Section to the Flow of Funds and Savings Section, with no change in basic annual salary at the rate of $7,479, effective February 27, 1966.

 SECRETARY
Board of Directors,
Girard Trust Bank,

Gentlemen:

The Board of Governors of the Federal Reserve System extends to January 2, 1967, the time within which Girard Trust Bank, Philadelphia, Pennsylvania, may establish a branch in the Blue Bell Shopping Center, Grovers Avenue at 70th Street, Philadelphia, Pennsylvania.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.
Board of Directors,
United California Bank,
Los Angeles, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by United California Bank, Los Angeles, California, of a branch in the vicinity of the intersection of State Highway 65 and Henderson Avenue, Porterville, California, 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.)
Wells Fargo Bank International Corporation,  
464 California Street,  
San Francisco, California. 94120

Gentlemen:

Reference is made to a letter dated January 13, 1966, from counsel to your Corporation enclosing a Consent signed under date of January 13, 1966, on behalf of Wells Fargo Bank, sole shareholder of your Corporation, consenting to the amendment of the Articles of Association of Wells Fargo Bank International Corporation to increase the capital stock to $8,000,000 consisting of 80,000 shares of the par value of $100 each.

The Board of Governors approves the amendment to Article SEVENTH. Please advise the Board when the capital increase has been effected.

It is noted that your present capital structure will be increased by the sale of 60,000 additional shares to Wells Fargo Bank for $8,000,000, of which $2,000,000 will be shown as capital surplus.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke, 
Assistant Secretary.
February 25, 1966

Mr. Rex H. Moore, President,
Federated Investments, Inc.,
P. O. Box 424,
Opp, Alabama.

Dear Mr. Moore:

This refers to the request contained in your letter of January 19, 1966, submitted through the Federal Reserve Bank of Atlanta, for a determination by the Board of Governors of the Federal Reserve System as to the status of Federated Investments, Inc., as a holding company affiliate.

From the information presented, the Board understands that Federated Investments, Inc., is engaged principally in owning consumer finance companies and a life insurance company; that it is a holding company affiliate by reason of the fact that it owns 40,950 of the 80,000 outstanding shares of capital stock of Capitol National Bank of Montgomery, Montgomery, Alabama; and that it does not, directly or indirectly, own or control any stock of, or manage or control, any other banking institution.

The Board is in process of reviewing its interpretation of the last paragraph of section 2(c) of the Banking Act of 1933, as amended (12 U.S.C. 221a), as it applies to situations similar to that presented by your request for a determination pursuant to that provision of law. In order to avoid delay that might inconvenience your company, the Board has determined, in accordance with its interpretation of that statutory provision in prior cases of this type, that Federated Investments, Inc., is not engaged directly or indirectly, as a business in holding the stock of,
or managing or controlling banks, banking associations, savings banks, or trust companies. Accordingly, Federated Investments, Inc., is not deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act (12 U.S.C. 371c) and does not need a voting permit from the Board of Governors in order to vote the bank stock which it owns.

As stated above, the interpretation of section 2(c) is under review by the Board. As a result of that review, it is possible that the Board's interpretation of the statute may be so modified that companies such as Federated Investments, Inc., would not be entitled to "favorable" determinations under the last paragraph of section 2(c). In that event, the Board may rescind the determination referred to in the preceding paragraph.

In any event, if the facts should at any time change in such manner as to indicate that Federated Investments, Inc., might be so engaged, this matter should again be submitted to the Board for another determination in the light of the new facts. A change in facts would include, among other things, any additional acquisitions of bank stock even though not constituting control.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
CONFIDENTIAL (FR)

Mr. Eliot J. Swan, President,
Federal Reserve Bank of San Francisco,
San Francisco, California. 94120.

Dear Mr. Swan:

The Board of Governors approves the appointment of Vice President A. B. Merritt as senior officer in charge of the Bank Examination function at the Federal Reserve Bank of San Francisco, effective March 1, 1966. The Board notes that there is no change in title or salary for Mr. Merritt in connection with his assignment to the Bank Examination Department, and that he will continue to exercise supervision of the Discount and Credit function.

The Board also approves the payment of salaries to the officers named below, for the period March 1 through December 31, 1966, at rates indicated, which are those fixed by your Board of Directors as reported in your letter of February 18, 1966:

H. B. Jamison  Assistant Vice President  $17,000
R. A. Karlsson  Chief Examiner  15,500

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
Mr. Laurence W. Lougee,
Vice President and Counsel,
The National Shawmut Bank of Boston,
40 Water Street,
Boston, Massachusetts. 02106

Dear Mr. Lougee:

This is in reply to your letters of February 4 and 14, 1966, in which you requested the Board to decide that the prohibition of section 6(a)(1) of the Bank Holding Company Act of 1956 (12 U.S.C. 1845) does not apply to the acquisition by a banking subsidiary of a banking holding company of all the stock of a corporation organized pursuant to section 25(a) of the Federal Reserve Act (12 U.S.C. 611). This request was made primarily in order to remove any legal obstacle to the issuance of a final permit to Shawmut International Corporation which might exist by virtue of the provisions of the Bank Holding Company Act.

Section 6(a)(1) of the Bank Holding Company Act provides that it shall be unlawful for a banking subsidiary of a holding company

"to invest any of its funds in the capital stock, bonds, debentures, or other obligations of a bank holding company of which it is a subsidiary, or of any other subsidiary of such bank holding company".

While the Board has previously taken the position that a banking subsidiary of a holding company may not own 25 per cent or more of the stock of an Edge Act corporation, upon further examination of the matter it is the Board's view that section 6(a)(1) of the Bank Holding Company Act was not intended to reach an investment of this kind.

Literally, an Edge Act corporation the stock of which is wholly owned by a banking subsidiary of a bank holding company would constitute a subsidiary of the holding company and section 6(a)(1) of the Holding Company Act, read strictly, would prohibit the banking
subsidiary from investing in stock of the Edge Act corporation. However, in the absence of specific language indicating such an intent, the Board believes that section 6(a)(1) of that Act should not be construed as impliedly repealing the authority of a national bank to invest in all of the stock of an Edge Act corporation pursuant to express provisions of section 25(a) of the Federal Reserve Act.

For this reason, the Board concludes that the investment by your bank in the stock of Shawmut International Corporation is not barred by section 6(a)(1) of the Bank Holding Company Act. Accordingly, a final permit to begin business will be issued to Shawmut International Corporation upon its compliance with the provisions of section 25(a) of the Federal Reserve Act and Regulation K.

Very truly yours,

(signed) Merritt Sherman

Merritt Sherman, Secretary.
Shawmut International Corporation,
55 Congress Street,
Boston, Massachusetts.

Gentlemen:

There is enclosed herewith a final permit of the Board of Governors granting to Shawmut International Corporation authority to commence business as a corporation organized under the provisions of Section 25(a) of the Federal Reserve Act.

Please advise the Board of Governors, through the Federal Reserve Bank of Boston, when the Corporation commences business.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure.
WHEREAS, the Board of Governors of the Federal Reserve System on the twenty-seventh day of January, Nineteen Hundred and Sixty-Six, approved the Articles of Association and Organization Certificate of SHAWMUT INTERNATIONAL CORPORATION, in accordance with the terms of Section 25(a) of the Federal Reserve Act; and

WHEREAS, by satisfactory evidence presented to the Board of Governors of the Federal Reserve System, it appears that SHAWMUT INTERNATIONAL CORPORATION has complied with all of the provisions of the statutes of the United States required to be complied with before a corporation shall be authorized to commence business as a corporation organized under Section 25(a) of the Federal Reserve Act;

NOW, THEREFORE, it is hereby certified that SHAWMUT INTERNATIONAL CORPORATION is authorized to commence business as a corporation organized and operating under the provisions of Section 25(a) of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System issued in accordance therewith.

IN WITNESS WHEREOF, I have hereunto set my hand and caused the seal of the Board of Governors of the Federal Reserve System to be affixed on the day and year first above written.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
Shawmut International Corporation,
55 Congress Street,
Boston, Massachusetts.

Gentlemen:

As requested in your letter of February 18, 1966, the Board of Governors grants consent for your Corporation to purchase and hold 1,251 shares of European Enterprises Development Company S.A., Luxembourg, at a cost of approximately US$250,000, provided such stock is acquired within one year from the date of this letter.

The foregoing consent is given with the understanding that the investment now being approved, combined with other foreign loans and investments of your Corporation and The National Shawmut Bank of Boston, will not cause the total of such loans and investments to exceed the guidelines established under the voluntary foreign credit restraint effort now in effect and that due consideration is being given to the priorities contained therein. The Board considers that compliance with the priorities expressed in Guideline 4 would require that total nonexport credits to developed countries in Continental Western Europe not exceed the amount of such loans and investments as of the end of 1965, unless this can be done without inhibiting the bank's ability to meet all reasonable requests for priority credits within the over-all target.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.