

Minutes of the Board of Governors of the Federal Reserve System on Thursday, September 18, 1969. The Board met in the Board Room at 9:30 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Mitchell
Mr. Daane
Mr. Maisel
Mr. Brimmer
Mr. Sherrill

Mr. Holland, Secretary
Mr. Kenyon, Deputy Secretary
Mr. Broida, Assistant Secretary
Mr. Forrestal, Assistant Secretary
Mr. Solomon, Adviser to the Board and Director,
Division of International Finance
Mr. Molony, Assistant to the Board
Mr. Cardon, Assistant to the Board
Mr. Coyne, Special Assistant to the Board
Mr. Nichols, Special Assistant to the Board
Mr. Hexter, General Counsel
Mr. Solomon, Director, Division of Supervision
and Regulation
Mr. O'Connell, Deputy General Counsel
Mr. Shay, Assistant General Counsel
Mr. Sanders, Assistant General Counsel
Mr. Axilrod, Associate Director, Division of
Research and Statistics
Mr. Gramley, Associate Director, Division of
Research and Statistics
Mr. Smith, Adviser, Division of Research and
Statistics
Mr. Keir, Associate Adviser, Division of
Research and Statistics
Mr. Eckert, Assistant Adviser, Division of
Research and Statistics
Mr. Shull, Assistant Adviser, Division of
Research and Statistics
Mr. Hersey, Adviser, Division of International
Finance
Mr. Kiley, Associate Director, Division of
Federal Reserve Bank Operations
Mr. Walcutt, Assistant Director, Division of
Federal Reserve Bank Operations

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Mr. Dahl, Assistant Director, Division of
Supervision and Regulation
Mr. Egertson, Assistant Director, Division
of Supervision and Regulation
Mrs. Semia, Technical Assistant, Office of the
Secretary
Other supporting staff

Reports on competitive factors. The Board unanimously approved a report, for transmittal to the Comptroller of the Currency, on the competitive factors involved in the proposed merger of The Fulton County National Bank and Trust Company of Gloversville, Gloversville, New York, with The Fulton County National Bank and Trust Company, also of Gloversville. The conclusion stated that the proposed merger, in itself, would have no adverse competitive effects.

The Board unanimously approved a report, for transmittal to the Comptroller of the Currency, on the competitive factors involved in the proposed merger of First National State Bank of New Jersey, Newark, New Jersey, with National State Bank of New Jersey, also of Newark. The conclusion stated that the proposed merger would have no adverse competitive effects.

The Board unanimously approved a report, for transmittal to the Comptroller of the Currency, on the competitive factors involved in the proposed consolidation of National Bank of Chester County and Trust Company, West Chester, Pennsylvania, and The Delaware County National Bank, Chester, Pennsylvania. The conclusion read as follows:

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The proposed consolidation of The Delaware County National Bank, Chester, and National Bank of Chester County and Trust Company, West Chester, would eliminate a small amount of competition now existing between the two banks and would combine the only bank with its main office in Delaware County with the largest bank headquartered in Chester County, thereby eliminating the potential for increased competition between them. Although numerous banking alternatives will remain in the area, overall, the effect of the proposal on competition would be adverse.

The Board unanimously approved a report, for transmittal to the Federal Deposit Insurance Corporation, on the competitive factors involved in the proposed merger of Marine Bank of Crisfield, Crisfield, Maryland, into Bank of Somerset, Princess Anne, Maryland. The conclusion read as follows:

There is little, if any, competition existing between Marine Bank of Crisfield, Crisfield, Maryland, and Bank of Somerset, Princess Anne, Maryland; however, the proposed merger would eliminate the potential for greater competition between them as the latter bank is in the process of establishing a branch in the Crisfield community. A number of reasonably accessible banking alternatives (one in Crisfield) would remain, including branches of three of the State's largest banking institutions. Overall, the effect of the proposal on competition would be slightly adverse.

First National City Overseas. The Board unanimously approved the application of First National City Overseas Investment Corporation, New York, New York, to purchase shares of Flaminia Nuova Piccoli Prestiti S.p.A., Rome, Italy. A copy of the letter sent to the applicant is attached as Item No. 1.

Trust Company of Georgia. The Board authorized the issuance of an order and statement reflecting its approval, on August 26, 1969, of the application of Trust Company of Georgia, Atlanta, Georgia, to merge

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with Atlanta Bank & Trust Company. Copies of the documents are attached under Item No. 2, along with a copy of Governor Robertson's dissenting statement.

Policy record entries. With a memorandum dated September 16, 1969, Mr. Broida had distributed a revised draft of policy record entry covering the meeting of the Federal Open Market Committee held on June 24, 1969. It was proposed to release the entry on Monday, September 22, and the entry was now being submitted for final review by the Board prior to its release. An earlier version had been approved by the Board on August 19, and subsequently distributed to the Reserve Bank Presidents. One suggested change had been incorporated in the text of the entry.

The release of the entry on Monday, September 22, was approved unanimously.

With a memorandum dated September 16, 1969, Mr. Broida had distributed a draft of policy record entry covering the meeting of the Federal Open Market Committee held on July 15, 1969. The draft entry took account of comments received from Committee members and staff following distribution of a preliminary draft. The entry was now presented for approval by the Board for inclusion in its Annual Report for 1969.

After discussion at today's meeting the policy record entry was approved unanimously for inclusion in the Board's Annual Report. It was

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understood that the entry would be distributed to the Reserve Bank Presidents, primarily for information but with an indication of the date by which any further comments should be received. It was contemplated that the entry would be released about October 13, 1969, after final review by the Board.

Charter New York Corporation. In a memorandum dated September 3, 1969, the Division of Supervision and Regulation recommended approval of the application of Charter New York Corporation, New York, New York, to acquire shares of The Citizens Central Bank, Arcade, New York.

After discussion at today's meeting the Board unanimously approved the application and authorized the issuance of an order and statement reflecting that decision. Copies of the documents are attached under Item No. 3.

Dominion Bankshares. In a memorandum dated September 11, 1969, the Division of Supervision and Regulation recommended approval of the application of Dominion Bankshares Corporation, Roanoke, Virginia, to acquire shares of Southhampton County Bank, Courtland, Virginia.

After discussion at today's meeting the application was approved unanimously. It was understood that documents to implement this decision would be prepared for the Board's consideration.

Hawkeye Bancorporation. In a memorandum dated September 11, 1969, the Division of Supervision and Regulation recommended approval

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of the application of Hawkeye Bancorporation, Red Oak, Iowa, to acquire shares of Mills' County State Bank, Glenwood, Iowa.

After discussion at today's meeting the application was approved unanimously. It was understood that documents to implement this decision would be prepared for the Board's consideration.

Shawmut Association. In a memorandum dated September 3, 1969, the Division of Supervision and Regulation recommended approval of the application of Shawmut Association, Inc., Boston, Massachusetts, to acquire shares of First Bank and Trust Company of Hampden County, Springfield, Massachusetts.

After discussion at today's meeting the application was approved unanimously. It was understood that documents to implement this decision would be prepared for the Board's consideration.

Hamilton National Associates. In a memorandum dated September 3, 1969, the Division of Supervision and Regulation recommended denial of the application of Hamilton National Associates, Incorporated, Chattanooga, Tennessee, to acquire shares of Marion Trust and Banking Company, Jasper, Tennessee.

After discussion at today's meeting the application was denied unanimously. It was understood that documents to implement this decision would be prepared for the Board's consideration.

Application of Holding Company Act abroad. In a memorandum of September 9, 1969, Mr. Cardon advised of the possibility that certain

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amendments to H.R. 6778, the one-bank holding company bill, might be offered on the floor of the House of Representatives to limit the application of the Bank Holding Company Act abroad. Mr. Cardon recommended that the Board support the amendments, adding that most of the members of the staff with whom he had discussed them shared his view that the amendments would avoid needless complications in enforcing the Act abroad without opening any serious loophole. Some members of the staff were concerned that the amendments would arbitrarily favor foreign companies over domestic ones. However, Mr. Cardon felt that there were sound reasons for difference in treatment.

The first amendment would amend the first sentence of section 2(c) of the Bank Holding Company Act to read as follows:

"Bank" means any institution organized under the laws of the United States, any state of the United States, the District of Columbia, any Territory of the United States, Puerto Rico, Guam, or the Virgin Islands that accepts deposits that the depositor has a legal right to withdraw on demand, but shall not include any organization operating under section 25 or section 25(a) of the Federal Reserve Act, or any organization that does not do business within the United States, except as an incident to its activities outside the United States.

The second amendment would revise the proviso in section 2(h) of the Act as follows:

Provided, however, that the prohibitions of Section 4 of this Act shall not apply to shares of any company organized under the laws of a foreign country (or to shares of any

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subsidiary of such company principally engaged in (September 19, 1969, that is principally engaged in business outside the legislative United States, if such shares are held or acquired by a bank holding company that is principally engaged in banking or other financial operations outside the United States. Attached is a letter that would respond to a request from

Certain problems that might conceivably arise from the amendments were noted during a discussion of the matter. However, it was the general view that the risk involved was minimal. Accordingly, the members of the Board concurred in Mr. Cardon's analysis of the situation and accepted his recommendation that the amendments be supported. In his memorandum Mr. Cardon had suggested that the reply to a letter received by Governor Daane from the Governor of The Netherlands Bank might be an appropriate vehicle for stating the Board's position on the amendments. Agreement was indicated, and unanimous approval was given to the proposed letter to Governor Zijlstra. A copy is attached as Item No. 4. During the foregoing discussion one Board member observed that if the amendments were adopted and it subsequently developed, contrary to expectations, that significant problems from the standpoint of the objectives of the bank holding company legislation appeared to be surfacing, it would always be possible to go back to the Congress and request a change in the law. Other members agreed.

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Taxation of national banks. In a memorandum dated September 16, 1969, Mr. Cardon reviewed the issues involved in pending legislative proposals to subject national banks to additional forms of taxation. Attached was a draft letter that would respond to a request from Chairman Sparkman of the Senate Banking and Currency Committee for the Board's views on the proposals.

Discussion at today's meeting developed agreement upon a number of changes in the draft report on the proposed legislation. The substance of the report was approved unanimously in the form subsequently transmitted to Chairman Sparkman in the form of a statement by Chairman Martin. Copies of the statement and the letter transmitting it are attached under Item No. 5.

Auditing standards. With a memorandum dated September 8, 1969, the Division of Federal Reserve Bank Operations transmitted a report on "Suggested Minimum Scope for Audits of Federal Reserve Banks by Their General Auditors." The report was submitted by Haskins & Sells in response to the Board's request of July 1968. The Division reviewed the principal recommendations made by the accounting firm and commented on their possible implementation. The Division suggested that the report be sent to Chief Federal Reserve Examiner Schaeffer with a recommendation that it be used for general guidance in review of the auditing function of the Reserve Banks.

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After discussion at today's meeting it was understood that the report would be sent to the Chief Federal Reserve Examiner as the Division had suggested.

Currency and coin--Puerto Rico. On June 23, 1969, the Board appointed a task force to study means of providing currency and coin to Puerto Rico upon the discontinuance by the Treasury Department of its cash depot at present operated in Puerto Rico through the San Juan branch of First National City Bank of New York. With a memorandum dated August 8 Governor Brimmer submitted the report of the task force and stated that the study group designated by the Board concurred with the recommendations in the report. Central to those recommendations was a temporary agreement to be entered into by the Federal Reserve Bank of Atlanta with First National City Bank for operation of a cash depot. Other recommendations dealt with associated procedures and understandings. Supplementary documentation also had been distributed.

After discussion at today's meeting the Board unanimously approved the recommendations of the task force. Attached as Item No. 6 is a copy of the letter in which the Federal Reserve Bank of Atlanta was apprised of the Board's action.

Regulations D and Q. In June 1969 the Board had published for comment proposed amendments to Regulation D, Reserves of Member Banks, and Regulation Q, Interest on Deposits, designed to limit bank liabilities outside coverage of the regulations (principally Federal funds transactions).

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On September 5 the Board considered staff analyses based on comments received, contained in memoranda from the Legal Division dated August 5 and 22 and from the Division of Research and Statistics dated August 28. The Legal Division recommended that the Board adopt the proposal of June 1969, with certain modifications, and also the still pending portion of a proposal with respect to Regulation Q that had been published for comment in September 1968. The Board deferred action pending exploration of certain questions. Subsequent documentation included memoranda dated September 12 from the Legal Division and the Division of International Finance and a memorandum dated September 15 from the Division of Research and Statistics. The Legal Division submitted a revised proposal, to be republished for comment, substantially reflecting the views expressed by a majority of the Board on September 5. Discussion at today's meeting developed agreement upon further changes in details of the proposal. At the conclusion of the discussion the Board unanimously approved publication of the revised proposal for comment. Copies of the proposal and its accompanying press release are attached under Item No. 7.

Commercial paper funds. With a memorandum dated September 2, 1969, the Legal Division submitted a notice of proposed rule making that would make Regulation Q, Interest on Deposits, applicable to certain funds obtained by a member bank through issuance of commercial paper. The proposed rule would also clarify the applicability of Regulation Q

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and Regulation D, Reserves of Member Banks, to funds obtained through the issuance of commercial paper in certain circumstances.

During discussion at today's meeting, although some sentiment was expressed in favor of publishing the proposal for comment, other remarks by members of the Board conveyed misgivings or opposition. It was therefore agreed to hold the matter in abeyance.

Cost of dinner. The Board authorized payment of an amount estimated at approximately \$1,000 as its share of the cost of a dinner to be given on September 27, 1969, for members of Working Party 3, Organization for Economic Cooperation and Development, and the Deputies of the Group of Ten by Treasury and Federal Reserve delegates to those groups.

All members of the staff except Mr. Holland then withdrew from the meeting.

Services of Mr. Shepardson. The Board authorized travel by former Governor Shepardson to attend a meeting of the Federal Reserve System Committee on Agriculture to be held in New Orleans, Louisiana, in October 1969, the expenses incident to such travel to be handled in accordance with the usual terms and conditions pertaining to Mr. Shepardson's service as a Board consultant.

In this connection it was noted that although Mr. Shepardson had expressed a desire to conclude his duties as consultant to the Board at the end of this month, there might be occasions from time to time

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FEDERAL RESERVE SYSTEM
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thereafter when it would be helpful to have Mr. Shepardson's services available temporarily, particularly in connection with plans for the Board's annex building.

Thrift Plan. Chairman Martin announced his selection of Governor Maisel as the Board representative on the Administrative Committee of the proposed Thrift Plan for Employees of the Federal Reserve System.

Report by Governor Daane. Governor Daane summarized meetings that he had attended recently of (1) Working Party 3 of the Organization for Economic Cooperation and Development and (2) the Deputies of the Group of Ten.

The meeting then adjourned.


Secretary

- (2) That FROCCS shall not hold, directly or indirectly, any shares of stock of FROCCS at any time;
- (3) That, when required by the Board of Governors, FROCCS shall furnish the Board with such reports regarding the activities of FROCCS as it may require from time to time;

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 18, 1969

First National City Overseas
Investment Corporation,
399 Park Avenue,
New York, New York. 10022

Gentlemen:

As requested in your letters of July 28 and August 29, 1969, the Board of Governors grants consent for your Corporation ("FNCOIC") to purchase and hold approximately 49,900 shares (50 per cent) of Flaminia Nuova Piccoli Prestiti S.p.A. ("FNPP"), Rome, Italy, at a cost of approximately \$1,356,000, provided an investment of approximately \$1,040,000 is made within one year from the date of this letter. In this connection, the purchase and holding of the above shares in excess of 10 per cent of your Corporation's capital and surplus is also approved.

The foregoing consent is granted subject to the following conditions:

- (1) That FNCOIC shall not hold, directly or indirectly, any shares of stock of FNPP if FNPP 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 FNPP establishes any branch or agency or takes any action or undertakes any operation in Italy, or elsewhere, in any manner, which at the time would not be permissible to FNCOIC;
- (2) That, when required by the Board of Governors, FNCOIC will furnish the Board with such reports regarding the activities of FNPP as it may require from time to time;

First National City Overseas
Investment Corporation

- (3) That any share acquisitions or dispositions by FNPP be reported under Section 211.8(d) of Regulation K in the same manner as if FNPP were a corporation organized under Section 25(a) of the Federal Reserve Act; and
- (4) That FNCOIC shall not carry on its books the shares of FNPP at a net amount in excess of its proportionate share of the book capital accounts of FNPP, after giving effect to the elimination of all known losses.

Subject to continuing observation and review, the Board suspends until further notice, the provisions of subparagraph (1) of the immediately preceding paragraph of this letter, with the understanding that FNCOIC will advise the Board of any change in the control of FNPP.

The Board has noted that as of July 31, 1969, the foreign loans and investments of your Corporation, First National City Bank, and its other subsidiaries, exceeded the guideline ceiling applicable under the foreign credit restraint effort now in effect. The foregoing consent is given with the understanding that those foreign loans and investments will be reduced as soon as possible to a level consistent with the guidelines; that the investment now being approved will be made within those guidelines; and that due consideration is being given to the priorities contained therein.

Very truly yours,

(Signed) Robert P. Forrestal

Robert P. Forrestal,
Assistant Secretary.

Item No. 2
9/18/69

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of

TRUST COMPANY OF GEORGIA

for approval of merger with
Atlanta Bank & Trust Company

ORDER APPROVING MERGER OF BANKS

There has come before the Board of Governors, pursuant to the Bank Merger Act (12 U.S.C. 1828(c)), an application by Trust Company of Georgia, Atlanta, Georgia, a State member bank of the Federal Reserve System for the Board's prior approval of the merger of that bank and Atlanta Bank & Trust Company, Atlanta, Georgia, under the charter and title of the former. As an incident to the merger, the three offices of Atlanta Bank & Trust Company would become branches of the resulting bank. Notice of the proposed merger, in form approved by the Board, has been published pursuant to said Act.

Upon consideration of all relevant material in the light of the factors set forth in said Act, including reports furnished by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Attorney General on the competitive factors involved in the proposed merger,

IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is approved, provided that said merger shall not be consummated (a) before the thirtieth calendar day following the date of this Order or (b) later than three months after the date of this Order unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Atlanta pursuant to delegated authority.

Dated at Washington, D. C. this 18th day of September, 1969.

By order of the Board of Governors.

Voting for this action: Chairman Martin and
Governors Mitchell, Maisel, Brimmer and Sherrill.

Voting against this action: Governor Robertson.

Absent and not voting: Governor Daane.

/Signed/ Robert P. Forrestal

Robert P. Forrestal,
Assistant Secretary.

(SEAL)

BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

APPLICATION BY TRUST COMPANY OF GEORGIA
FOR APPROVAL OF MERGER WITH
ATLANTA BANK & TRUST COMPANYSTATEMENT

Trust Company of Georgia, Atlanta, Georgia ("TCG"), with total deposits of \$500 million, has applied, pursuant to the Bank Merger Act (12 U.S.C. 1828(c)), for the Board's prior approval of the merger of that bank with Atlanta Bank & Trust Company, Atlanta, Georgia ("ABTC"), which has total deposits of \$17 million.^{1/} The banks would merge under the charter and name of TCG, which is a member of the Federal Reserve System. As an incident to the merger, the three offices of ABTC would become branches of TCG, increasing the number of its offices to fourteen.

Competition. - TCG operates its head office and 10 branches in Atlanta; Trust Company of Georgia Bank of DeKalb (deposits of \$19 million), an affiliate of TCG, operates two offices in the Atlanta metropolitan area.^{2/} The main office of ABTC is about four miles south of the main office of TCG; ABTC operates a branch at Ben Hill and a

^{1/} As of December 31, 1968.

^{2/} TCG is a registered bank holding company. Its wholly-owned subsidiary, Trust Company of Georgia Associates, also a registered bank holding company, has six subsidiary banks (aggregate deposits of \$276 million), but only Trust Company of Georgia Bank of DeKalb has offices in the Atlanta Standard Metropolitan Statistical Area.

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branch at Roswell Road, about 7.5 miles west and 11.5 miles north, respectively, of its head office. The nearest office of TCG to ABTC's main office is its West End branch, three and one-fourth miles to the northwest. TCG operates an office six miles north of ABTC's Ben Hill branch and an office 1.5 miles south of ABTC's Roswell Road branch. The two offices of TCG's affiliate are within four miles of ABTC's Roswell branch. There are 27 offices of nine banks, other than TCG, in the areas served by ABTC.

TCG, with 16 per cent of the deposits and 7 per cent of the offices, is the third largest bank in the Atlanta Standard Metropolitan Statistical Area. Together with its affiliate, TCG holds about 17 per cent of area deposits and operates 8 per cent of the banking offices; following the proposed merger with ABTC, these figures would be increased to 17.2 per cent and 10 per cent, respectively. The two largest banks operating in the Atlanta SMSA together hold about 51 per cent of area deposits and operate 32 per cent of the area's banking offices.

ABTC derives the bulk of its deposits from individuals and small businesses in the neighborhoods in which its offices are situated; the bank engages in a construction lending specialty throughout the Atlanta metropolitan area, but virtually none of the loans originate in these neighborhoods. The merger of TCG and ABTC would eliminate some competition, as well as increase slightly the concentration of banking resources in the Atlanta SMSA.

The effect of the merger on competition would be adverse.

Financial and managerial resources and prospects. - The banking factors with respect to TCG are satisfactory, as they would be with respect to the resulting bank. The banking factors as they relate to ABTC are satisfactory at the present time, but the bank has a management succession problem. The president of ABTC has a health problem and must limit his activities; no one else on the staff is familiar with the bank's construction lending program, which is the bank's specialty. The efforts of ABTC to employ a successor have thus far proved futile. The merger would immediately and conclusively resolve this problem.

Convenience and needs of the community. - The effect of the merger on banking convenience and needs would be limited to the area served by ABTC, and its main impact would be in the Lakewood Heights section.

The Lakewood Heights section, site of ABTC's main office, has a population of 57,000; the income of the residents ranges from medium to low. About 85 per cent of ABTC's deposits are in the main office and virtually none of its construction loan business, which is substantial, originates in this area. TCG would more adequately serve the banking needs of the community; the bank's department which makes high risk loans to businesses controlled by minority groups could be of particular benefit to the area.

Summary and conclusion. - While the case is viewed as a difficult one, it is the judgment of the Board that the probable adverse effect of the merger on competition would be outweighed by the benefits for the banking convenience and needs of the Lakewood Heights community.

Accordingly, the Board concludes that the application should be approved.

September 18, 1969.

DISSENTING STATEMENT OF GOVERNOR ROBERTSON

In my judgment, the merger of TCG and ABTC is plainly unwarranted.

The majority acknowledges that the transaction will have an adverse effect on competition. In point of fact, the merger will eliminate significant direct competition between the two banks. ABTC's nearest branch is only 1.5 miles from an office of TCG. Further, there are presently only 10 banks operating in the city of Atlanta. Under Georgia law, it is impossible for outside banks to enter the city and thereby effect a reduction in the high concentration of banking resources. In this context, the elimination of a viable bank such as ABTC through merger with the third largest bank in Atlanta is particularly inimical to the purposes of the Bank Merger Act.

ABTC is said to have a management succession problem, as is alleged all too frequently in merger cases presented to this Board. Here there is no evidence that the bank has exhausted all reasonable possibilities for resolving the problem. In this connection, it should be noted that ABTC is a profitable and growing institution. Its deposits have grown during the past five years at an average annual rate of 12 per cent, and its earnings have generally been in line with banks of similar size in Georgia. Finally, if ABTC should fail to provide the services needed in the immediate neighborhood of its offices, de novo branches could be established there by TCG or by any other Atlanta bank. In

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short, there simply is nothing in the record to justify approval of this anticompetitive merger.

I would deny the application.

September 18, 1969.

Item No. 3
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UNITED STATES OF AMERICA
BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C.

In the Matter of the Application of
CHARTER NEW YORK CORPORATION,
New York, New York,
for approval of acquisition of voting
shares of The Citizens Central Bank,
Arcade, New York.

ORDER APPROVING ACQUISITION OF BANK STOCK BY
BANK HOLDING COMPANY

There has come before the Board of Governors, pursuant to section 3(a)(3) of the Bank Holding Company Act of 1956 (12 U.S.C. 1842(a)(3)) and section 222.3(a) of Federal Reserve Regulation Y (12 CFR 222.3(a)), an application by Charter New York Corporation, New York, New York, for the Board's prior approval of the acquisition of 100 per cent of the voting shares of The Citizens Central Bank, Arcade, New York.

As required by section 3(b) of the Act, the Board gave written notice of receipt of the application to the Superintendent of Banks for the State of New York and requested his views and recommendation. The New York State Banking Board advised this Board of its

action, consistent with a recommendation made to it by the Superintendent, approving an application, filed pursuant to the New York Banking Law, with respect to the same transaction.

Notice of receipt of the application was published in the Federal Register on August 16, 1969 (34 Federal Register 13342), which provided an opportunity for interested persons to submit comments and views with respect to the proposed acquisition. A copy of the application was forwarded to the United States Department of Justice for its consideration. Time for filing comments and views has expired and all those received have been considered by the Board.

IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is approved, provided that the acquisition so approved shall not be consummated (a) before the thirtieth calendar day following the date of this Order, or (b) later than three months after the date of this Order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of New York pursuant to delegated authority.

Dated at Washington, D. C., this 13th day of September 1969.

By order of the Board of Governors.

Voting for this action: Chairman Martin and Governors Mitchell, Daane, Maisel, Brimmer, and Sherrill.

Absent and not voting: Governor Robertson.

(Signed) Robert P. Forrestal

(SEAL)

Robert P. Forrestal,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

APPLICATION BY
CHARTER NEW YORK CORPORATION FOR APPROVAL OF
THE ACQUISITION OF VOTING SHARES OF
THE CITIZENS CENTRAL BANK, ARCADE, NEW YORK

STATEMENT

Charter New York Corporation, New York, New York ("Applicant") a registered bank holding company, has applied to the Board of Governors, pursuant to section 3(a)(3) of the Bank Holding Company Act of 1956, for prior approval of the acquisition of 100 per cent of the voting shares of The Citizens Central Bank, Arcade, New York ("Bank").

Views and recommendation of supervisory authority. - As required by section 3(b) of the Act, the Board notified the Superintendent of Banks for the State of New York of receipt of the application and requested his views and recommendation thereon. In view of his coordinate responsibilities under New York law, the Superintendent did not comment directly to the Board. The New York State Banking Board, however, advised the Board of its action, consistent with a recommendation of the Superintendent (a copy of which was also provided to the Board), approving an application with respect to the same transaction pursuant to provisions of the New York Banking Law.

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Statutory considerations. - Section 3(c) of the Act provides that the Board shall not approve an acquisition that would result in a monopoly or would be in furtherance of any combination or conspiracy to monopolize or to attempt to monopolize the business of banking in any part of the United States. Nor may the Board approve any other proposed acquisition, the effect of which, in any section of the country, may be substantially to lessen competition, or to tend to create a monopoly, or which in any other manner would be in restraint of trade, unless the Board finds that the anticompetitive effects of the transaction are clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served. In each case, the Board is required to take into consideration the financial and managerial resources and future prospects of the bank holding company and the banks concerned, and the convenience and needs of the community to be served.

Competitive effect of proposed transaction. - Applicant controls \$4 billion ^{1/} in deposits and is the eighth largest banking organization and the third largest bank holding company in the State of New York. Its five subsidiary banks account for 4.84 per cent of the deposits held by all banks located in the State. Consummation of another acquisition

^{1/} Unless otherwise noted, all banking data are as of December 31, 1968, refer to insured commercial banks, and reflect holding company acquisitions and mergers approved by supervisory authorities to date.

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recently approved by the Board will increase that share to 4.92 per cent, and consummation of both that acquisition and the present proposal would increase Applicant's share of such deposits to 4.96 per cent.

Applicant's largest subsidiary bank is Irving Trust Company, which has deposits of \$3.7 billion and is the seventh largest bank in New York City. Its other present subsidiary banks are The Merchants National Bank and Trust Company, Syracuse (\$186 million deposits); Endicott Trust Company, Endicott (\$57 million deposits); Dutchess Bank and Trust Company, Poughkeepsie (\$33 million deposits); and Fulton County National Bank and Trust Company of Gloversville, Gloversville (\$23 million deposits). In addition, it recently received Board approval to acquire shares of Scarsdale National Bank and Trust Company, Scarsdale (\$69 million deposits).

Bank (\$32 million deposits), is headquartered in Arcade, New York, 35 miles southeast of Buffalo, and has three out-of-town branches within a 22 mile radius of Arcade. It is the eleventh largest of the 33 commercial banks in the Ninth Banking District of the State of New York, and serves an area which includes most of Wyoming County and portions of neighboring Cattaraugus County, Allegany County, and Erie County. Bank is the largest of five banks headquartered in the area, but ranks fourth in size among nine banks with offices therein. Two of the banks operating in the area are much larger banks headquartered in Buffalo.

None of Applicant's subsidiary banks is located in the Ninth Banking District, and no subsidiary of Applicant has an office located within 100 miles of any of Bank's offices. Deposit and loan overlap between Bank and Applicant's subsidiaries is minimal. Acquisition of Bank by Applicant, therefore, would not eliminate existing competition. Neither does it appear that significant potential competition would be foreclosed by the proposal, bearing in mind the size of the Bank and the fact that New York law prohibits any of Applicant's subsidiaries from establishing a branch within Bank's service area or elsewhere in the Ninth Banking District.

A likely effect of the proposed acquisition would be to increase competition within the area immediately served by Bank. Presently, Bank is the only banking institution in Arcade, the hub of a farming and slowly evolving industrial area. Approval of this proposal would remove "home office protection" from Arcade, thereby opening the area to possible branching by other commercial banks. In addition, by facilitating improvements in the services offered by Bank, as well as a broadening of the services offered, and by making its geographic expansion more feasible, consummation of the proposal should result in Bank's becoming a more capable competitor to larger Ninth District Banks.

The data presented reflect that Applicant's acquisition of Bank would not eliminate existing competition or foreclose potential competition and would have no significant impact upon the degree of concentration of banking resources in any relevant market. On the record before the Board,

it is concluded that the proposed acquisition would not result in a monopoly nor be in furtherance of any combination or conspiracy to monopolize the business of banking in any relevant area. Approval of the application would not substantially lessen competition, tend to create a monopoly, or restrain trade in any section of the country.

Financial and managerial resources and future prospects. -

The financial condition of Applicant, its subsidiary banks, and Bank is considered satisfactory. All have competent management, and their prospects appear favorable.

These considerations are consistent with approval of the present application.

Convenience and needs of the communities. - Bank's service area is largely rural, but is becoming increasingly industrialized. The urbanization of the area will necessitate an increase in banking resources and services, and Applicant's proposal should assist Bank in meeting these changing needs of the area, and make it a more meaningful competitor to larger banks in the Ninth District. While no new banking services will be introduced within the area, the acquisition would likely result in increased competition by providing an alternative source for certain services which have heretofore been offered only by the large Buffalo banks operating in the area. Among the services which Applicant proposes to institute or expand at Bank are municipal financing, real estate construction lending, and personal trust services.

Considerations relating to the convenience and needs of the area are consistent with, and provide some support for, approval of the application.

Summary and conclusion. - On the basis of all relevant facts contained in the record, and in light of the factors set forth in section 3(c) of the Act, it is the Board's judgment that the application should be approved.

September 18, 1969.

Item No. 4
9/18/69

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



OFFICE OF THE CHAIRMAN

September 18, 1969.

AIR MAIL

The Honorable J. Zijlstra,
Governor,
De Nederlandsche Bank N.V.,
Amsterdam-C,
The Netherlands.

Dear Jelle:

As Governor Daane mentioned in his letter of July 18 to you, the Board's staff has been reviewing the question of how the Bank Holding Company Act of 1956 should apply to companies located outside the United States. This review has now been concluded and the Board has decided that amendments to sections 2(c) and 2(h) of the Act to narrow the scope of its application abroad are in order.

First, we believe that the definition of "bank" in section 2(c) should be limited to domestically-chartered banks, as it was in the original Act. The 1966 amendment, which omitted this limitation, and thus inadvertently covered foreign-chartered banks, was intended for a different purpose, and the Board believes that the objectives of the Act do not require coverage of foreign-chartered banks. We also believe that a bank that is domestically-chartered but does no business in the United States except as an incident to its foreign operations should be excluded from the definition, along with foreign-chartered banks.

Second, we believe that section 2(h) should be amended to allow bank holding companies principally engaged in banking abroad to retain interests in foreign-chartered nonbanking companies that are also principally engaged in business outside the United States.

In reaching these conclusions the Board has reviewed the legislative history of the Act to make sure that the amendments would not interfere with the Congressional purpose. We are convinced, after this review, that the two broad purposes of the

The Honorable J. Zijlstra

Act--to maintain a sound and competitive banking system in this country and to guard against undue concentration of control of either banks or nonbanking businesses in this country through bank holding companies--can be accomplished with a minimum of interference with banking operations in other countries. The amendments would help to avoid needless expense and inconvenience in the application of the statute abroad. They seem consistent with the pattern of coverage established in the original Act.

Sincerely yours,

Bill

Wm. McC. Martin, Jr.

The Honorable J. Zijlstra
Chairman
Committee on Banking and Currency
United States Senate
Washington, D.C. 20540

Dear Mr. Chairman:

In accordance with your request to my committee staff, I am enclosing for information to the members of your committee the original of the Board's views on H. R. 7571, S. 2086 and related proposals concerning the taxation of national banks. If you require additional copies and pages, please let me know and I will be glad to supply them.

Very truly yours,
Wm. McC. Martin, Jr.
(Signed) Wm. McC. Martin, Jr.
Wm. McC. Martin, Jr.

Enclosure

Item No. 5
9/18/69



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

OFFICE OF THE CHAIRMAN

September 23, 1969.

State of Florida
Before the Board of Governors of the Federal Reserve System
On H. R. 7491, S. 2906, and related proposals concerning State taxation of national banks.

The Honorable John Sparkman,
Chairman,
Committee on Banking and Currency,
United States Senate,
Washington, D. C. 20510

Dear Mr. Chairman:

In accordance with arrangements made with your committee staff, I am submitting for inclusion in the record of your hearings tomorrow a statement of the Board's views on H. R. 7491, S. 2906 and related proposals concerning State taxation of national banks. As requested, seventy-five additional copies are being supplied for the use of the Committee.

Sincerely yours,

(Signed) Wm McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure

The Treasury Department has submitted for your consideration a draft proposal to subject national banks to nondiscriminatory sales and use taxes in the State, and has indicated its intention to recover from the draft that the language could be broadened to cover other taxes, such as those specified in S. 2906. The word "draft"

Statement of William McC. Martin, Jr.
Chairman of the Board of Governors of the Federal Reserve System
Before the Senate Banking and Currency Committee
on H. R. 7491, S. 2906, and Related Proposals
September 24, 1969

I appreciate your invitation to present the views of the Board of Governors with respect to H. R. 7491, S. 2906, and related proposals concerning State taxation of national banks. While this is a subject on which the Treasury Department can speak with more authority, we hope that some observations on our part will be helpful to your Committee in its deliberations on the important questions involved in these bills.

We understand that the immediate cause for the concern about changing the present law on this subject is that the Supreme Court has recently ruled in two cases that national banks are exempt from certain forms of taxes imposed by their home States. The second of these two rulings, according to the Comptroller of the State of Florida, involves a potential revenue loss of such serious proportions in that State that remedial legislation is needed as soon as possible.

The Treasury Department has submitted for your consideration a draft amendment to subject national banks to nondiscriminatory sales and use taxes in the home State, and has indicated in its letter accompanying the draft that the language could be broadened to cover other taxes, such as those specified in S. 2906. The Board agrees

with the Treasury that "a national bank should be subject to the same taxation in its home State as a State chartered bank." We have no recommendation as to whether it is best to add to the statutory list of permissible taxes, as Senator Holland and the Treasury propose, or subject national banks to home-State taxation with listed exceptions, as others have proposed. Either approach runs the risk of requiring an amendment in case unforeseen problems arise. We believe that there is merit, however, in excluding two forms of tax: taxes on intangible personal property and taxes for which the State has substituted another tax (or imposed another tax at a higher rate) in the case of banks. A tax on intangible personal property hits hardest those financial institutions whose assets consist almost wholly of intangibles; so a tax that appeared to be nondiscriminatory could operate unfairly in practice if applied to banks. And we believe that recognition should be given to the fact that some States have exempted State banks from any tax that national banks need not pay, and have then taken this exemption into account in fixing other taxes that both State and national banks must pay; repeal of the exemption should not operate to subject banks to double taxation.

On the question of taxation outside the home State, we are inclined to agree with the Treasury, particularly in view of the urgency of the need for action, as expressed by the Comptroller of the State of Florida. The issue of multistate taxation of

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corporations is complex, and one on which we have limited knowledge. It is not involved in the two Supreme Court decisions that prompted introduction of the various bills before you. We believe equal treatment in the home State is clearly needed now; determination of whether changes should be made in other States can await further study.

In summary, the Board endorses the amendment submitted by the Treasury, with the qualifications mentioned above.

The Board, in its capacity as the principal policy-making body of the Federal Reserve System, is authorized to issue currency and to regulate the money supply. The Board would particularly like to know the extent to which the local flexibility in money supply is being exercised beyond December 31, 1950.

The Board, in its meeting on September 14, 1950, requested the report of the Task Force on the subject of the recommendations in connection with the Federal Reserve Bank of Atlanta. Therefore, it formally requested to transmit those recommendations as follows:

1. Enter into an agreement with the First National City Bank of New York to the effect that the New York Branch will continue to operate the cash depot in Puerto Rico. Details of this agreement will be the following points:

1. The Reserve Bank will undertake to maintain the needed inventory of currency and coin with the depot, subject to such terms and conditions as may be specified or negotiated; e.g., relating to collateral, business, techniques of operation, etc.
2. The Reserve Bank will pay the cost of shipping the needed currency and coin to the depot.
3. The Reserve Bank will also pay the cost of returning unlit currency for destruction and of returning any excess coin.

Item No. 6

9/18/69

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 19, 1969.



Mr. Monroe Kimbrel,
President,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia. 30303

Dear Mr. Kimbrel:

The Board of Governors acknowledges receipt of your letter of September 16, outlining the views of the Federal Reserve Bank of Atlanta with regard to the currency situation in Puerto Rico. The Board noted particularly the desire of the Atlanta Bank to retain total flexibility on how to cope with the situation beyond December 31, 1970.

The Board, in its meeting on September 18, 1969, accepted the report of the Task Force and approved the recommendations it contains. The Federal Reserve Bank of Atlanta, therefore, is formally requested to implement these recommendations, as follows:

A. Enter into an agreement with the First National City Bank of New York to the effect that its San Juan Branch will continue to operate the cash depot in Puerto Rico. Basic to this agreement will be the following points:

1. The Reserve Bank will undertake to maintain the needed inventory of currency and coin with the depot, subject to such terms and conditions as may be specified or negotiated; e.g., relating to collateral, insurance, techniques of operation, etc.
2. The Reserve Bank will pay the cost of shipping the needed currency and coin to the depot.
3. The Reserve Bank will also pay the cost of returning unfit currency for destruction and of returning any excess coin.

Mr. Monroe Kimbrel

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4. The Federal Reserve Bank will specify the operating procedures to be followed by the depot and the commercial banks in Puerto Rico in their relations with the depot, to the extent deemed necessary.
5. The Reserve Bank will pay the cost of operations at the depot for a short period, not to exceed twelve months, until such time as agreement can be reached for this cost, or some appropriate portion of it, to be borne by the authorities and/or the banking community in Puerto Rico.
6. The Reserve Bank is authorized to assume the cost of improvements in the facilities of the depot which the Bank deems necessary to furnish adequate security.

B. Encourage the Government of the Commonwealth of Puerto Rico to plan for the assumption of the operation of the depot by a more "neutral" manager, such as the Government Development Bank, with a greater share of the expenses, both direct and indirect, being met by the authorities and/or banking community in Puerto Rico.

C. Actively work, during the 12-month period in which the cost of operating the depot is paid by the Bank, with the authorities and Bankers Association to the end that the role of the Reserve Bank will be lessened.

The Board has noted your request that it give some indication of its position with regard to the matter of assigning Puerto Rico, the Virgin Islands, and the Panama Canal Zone to the Sixth Federal Reserve District. It is recognized that such an indication would be helpful in relation to the current study of Federal Reserve service in Florida. However, this matter will require a much broader examination in the context of overall System policy before any decision could be reached. The Board has asked its staff to work with the Federal Reserve Banks of Atlanta and New York to carry out such an examination.

Mr. Monroe Kimbrel

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Further, while a factor in the Puerto Rican situation and the Florida study, such a consideration should not, in the Board's opinion, delay the implementation of a program which will enable the System to maintain without interruption the necessary currency and coin service to Puerto Rico.

The Board would appreciate the Federal Reserve Bank of Atlanta initiating negotiations with both the First National City Bank of New York and the authorities and bankers in Puerto Rico to develop the desired program.

Very truly yours,

(Signed) Robert P. Forrestal

Robert P. Forrestal,
Assistant Secretary.



FEDERAL RESERVE

press release

Item No. 7
9/18/69

For immediate release.

September 19, 1969.

The Board of Governors of the Federal Reserve System today issued for comment a revised proposal to narrow the category of "Federal funds" transactions that are exempt from Regulations D (reserves of member banks) and Q (payment of interest on deposits).

As revised, the proposal would exempt from the reserve requirements and interest rate limitations of these regulations a member bank's liability on "Federal funds" transactions only with another bank and its subsidiaries, various governmental institutions or a securities dealer. Such transactions with mutual savings banks as well as commercial banks would be exempt.

An earlier version issued on June 27 was modified after consideration of comments received by the Board, and in view of the complexity of the issues involved and subsequent related actions by the Board involving Euro-dollars. Comments on the revised proposal should be received by the Board no later than October 20.

A "Federal funds" transaction is one involving the purchase or sale of member bank deposits at Federal Reserve Banks (or other immediately available funds) for one business day at a specified rate of interest.

A copy of the revised proposal is attached.

Attachment

[12 CFR Parts 204, 217]

[Regs. D, Q]

RESERVES OF MEMBER BANKS; INTEREST ON DEPOSITS

Certain Borrowings Classified as Deposits

On June 27, 1969, the Board of Governors published for comment proposed amendments to Part 204 (Regulation D) and Part 217 (Regulation Q) designed mainly to narrow the category of so-called "Federal funds" transactions that are exempt from such regulations (Federal Register of July 9, 1969, 34 F.R. 11384).^{*} In view of comments received, the complexity of the issues involved and related actions taken by the Board subsequent to the June 27 proposal, the Board considers that it would be in the public interest to publish the present revised proposal for further comment.

In the Board's view, four classes of Federal funds "purchases" and other short-term borrowings by member banks should be excluded from the provisions of Regulations D and Q. Borrowings from other banks are one such class, because these are necessary for effective functioning of the Federal funds market, which is useful in the implementation of monetary policy. Two other classes are (a) "repurchase" (RP) transactions in Government and Federal agency securities eligible for Federal Reserve purchase and (b) Federal funds borrowings from securities dealers arising from the clearance of securities, both of which facilitate the effective functioning of United States financial markets. Finally, the Board considers that it is appropriate to permit short-term borrowings by member banks from various governmental institutions outside the basic provisions of Regulations D and Q.

^{*}The June 27 proposal was a reoffering of the Board's September 25, 1968, notice of proposed rule making (Federal Register of October 1, 1968, 33 F.R. 14648) so far as the earlier proposal related to bringing a bank's liabilities on nondocumentary "nondeposit" obligations within the coverage of Regulations D and Q. Adoption of the proposal offered for comment at this time would complete the Board's action on the September 25, 1968, proposal as well as the June 27, 1969, proposal.

With this view in mind, the Board is considering amending section 204.1(f) of Regulation D to read as follows:

(f) Deposits as including certain promissory notes and other obligations.

For the purposes of this part, the term "deposits" also includes a member bank's liability on any promissory note, acknowledgment of advance, due bill, or similar obligation (written or oral) that is issued or undertaken by a member bank principally as a means of obtaining funds to be used in its banking business, except any such obligation that:

(1) is issued to, and held for the account of, (i) a domestic banking office^{5a/} of a bank, (ii) an "Edge" or "Agreement" corporation operating under section 25(a) or section 25 of the Federal Reserve Act, or (iii) an agency of the United States;

(2) evidences an indebtedness arising from a transfer of direct obligations of, or obligations that are fully guaranteed as to principal and interest by, the United States or any agency thereof that the bank is obligated to repurchase;

(3) has an original maturity of more than 2 years, is unsecured, and states expressly that it is subordinated to the claims of depositors; or

(4) arises from a borrowing by a member bank from a dealer in securities, for one business day, of proceeds of a transfer of deposit credit in a Federal Reserve Bank (or other immediately available funds), commonly referred to as "Federal funds", received by such dealer on the date of the loan in connection with clearance of securities transactions.

This paragraph shall not, however, affect (i) any instrument issued before June 27, 1966, or (ii) any instrument that evidences an indebtedness arising from a transfer of assets under repurchase agreement issued before July 25, 1969.

^{5a/} Any banking office in any State of the United States or the District of Columbia of a bank organized under domestic or foreign law.

Section 217.1(f) of Regulation Q would be amended to read as follows:

(f) Deposits as including certain promissory notes and other obligations.

For the purposes of this part, the term "deposits" also includes a member bank's liability on any promissory note, acknowledgment of advance, due bill, or similar obligation (written or oral) that is issued or undertaken by a member bank principally as a means of obtaining funds to be used in its banking business, except any such obligation that:

(1) is issued to, and held for the account of, (i) a bank, foreign government, monetary or financial authority of a foreign government when acting as such, or international financial institution of which the United States is a member, (ii) an "Edge" or "Agreement" corporation operating under section 25(a) or section 25 of the Federal Reserve Act, or (iii) an agency of the United States;

(2) evidences an indebtedness arising from a transfer of direct obligations of, or obligations that are fully guaranteed as to principal and interest by, the United States or any agency thereof that the bank is obligated to repurchase;

(3) has an original maturity of more than 2 years, is unsecured, and states expressly that it is subordinated to the claims of depositors; or

(4) arises from a borrowing by a member bank from a dealer in securities, for one business day, of proceeds of a transfer of deposit credit in a Federal Reserve Bank (or other immediately available funds), commonly referred to as "Federal funds", received by such dealer on the date of the loan in connection with clearance of securities transactions.

This paragraph shall not, however, affect (i) any instrument issued before June 27, 1966, or (ii) any instrument that evidences an indebtedness arising from a transfer of assets under repurchase agreement issued before July 25, 1969.

Upon adoption of these proposed amendments, the interpretation published as § 217.137 (Published Interpretations of the Board, ¶ 3261) ("Transfer from deposit account to 'borrowed money' account and payment of interest thereon") would be revoked.

The principal effect of the proposal is to bring within the coverage of Regulations D and Q a member bank's liability on a so-called "Federal funds" transaction with any person other than a bank and its subsidiaries, various governmental institutions, or a securities dealer.**

Under the proposal, a member bank that "purchases" Federal funds would be under a duty to take such action as may be necessary to ascertain the nature of the "seller" in order to justify classification of its liability on the transaction as "Federal funds purchased" rather than as a deposit. Any member bank that has given general assurance to another member bank that sales by it of Federal funds ordinarily will be for its own account, and thereafter executes such transactions for the account of others, would be expected to indicate the nature of the actual lender with respect to each such transaction. If it failed to do so, the selling bank would be responsible for any resulting violation of Regulation Q and would be deemed by the Board as violating section 19 and Regulation Q, since it would have caused the purchasing bank's inadvertent non-conformance.

** The only liability on a Federal funds transaction with a securities dealer that would be exempt from the reserve requirements and interest rate limitations of Regulations D and Q is one that arises from a borrowing for one business day of Federal funds received by the dealer from the clearance of securities transactions on the date of the borrowing. The Board considers that the option of settling securities transactions in Federal funds facilitates the efficient functioning of certain key United States securities markets. Use of this option might tend to be inhibited if dealer sales of such Federal funds to banks were subject to the regulations.

Although the proposal relates mainly to the permissible scope of Federal funds transactions outside Regulations D and Q, the proposal is also designed to maintain the effectiveness of the Board's 1966 action under which promissory notes issued by a member bank principally as a means of obtaining funds to be used in its banking business are classified as deposits.***

To the same extent as at present, liabilities on borrowings from a bank (including a member bank, a nonmember commercial bank, a mutual savings bank, a cooperative bank, the Export-Import Bank of the United States, the Government Development Bank in Puerto Rico, and a foreign bank) would remain exempt from the reserve requirements and interest rate limitations of Regulations D and Q. In particular, liabilities on borrowings from foreign offices of banks, while remaining exempt from Regulation Q, would remain subject to the special reserve requirements of § 204.5(c) of Regulation D, which became effective September 4, 1969 (Federal Register of August 20, 1969, 34 F.R. 13409).

New provisions would be added under which (1) a member bank's liability on a borrowing from a Federal agency would be exempt from Regulations D and Q, and (2) a member bank's liability on a borrowing from a foreign government, a monetary or financial authority of a foreign government when acting as such, or an international financial institution of which the United States is a member would be exempt from Regulation Q. If the latter provision is adopted, § 204.5(c)

*** Where a member bank issues an obligation principally for another purpose - such as usually would be the case with respect to a due bill issued to evidence the bank's liability to deliver securities or foreign exchange sold - it need not classify its liability thereon as a deposit. However, the circumstances surrounding an obligation issued principally for a purpose other than obtaining funds for use in the ordinary course of business may cause an obligation to become subject to Regulation Q - for example, if the bank's liability on a due bill extended beyond a period exceeding that necessary to complete the securities sale, or if the bank paid interest to the customer in excess of the amount that accrued on the securities sold during the delay in delivery.

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of Regulation D will be amended so that the special reserve requirement thereof would apply to borrowings from the specified classes of institutions, just as are borrowings from foreign banking offices.

The proposal applies to nondocumentary obligations as well as documentary obligations undertaken by a member bank to obtain funds for use in its banking business. Also, under the proposal, in order for any bank liability to another bank, Edge or Agreement corporation, or certain official institutions to be classified as a nondeposit, the liability must be for the account of such an organization. Except for Federal funds transactions, the procedures with respect to which have already been described, the Board expects that any such liability would be issued on a nontransferable basis.

To aid in the consideration of this matter by the Board, interested persons are invited to submit relevant data, views, or arguments. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551, to be received not later than October 20, 1969. Under the Board's rules regarding availability of information (12 CFR Part 261), such materials will be made available for inspection and copying upon request unless the person submitting the material requests that it be considered confidential.

By order of the Board of Governors, September 18, 1969.

(signed) Robert P. Forrestal

Robert P. Forrestal,
Assistant Secretary.