

Minutes of the Board of Governors of the Federal Reserve System
on Friday, October 24, 1970. The agenda for the Board was as
follows:

President: Mr. Tolson
Vice President: Mr. Boardman
Chairman: Mr. Boardman

MINUTES

Board of Governors of the Federal Reserve System

October 27, 1970

Mr. Boardman

Mr. Boardman, Secretary

The Board considered the draft report of its October 22, 1970, meeting on the proposed voluntary guide to conduct for senior executive officials, with particular reference to paragraphs 7, 8, and 9, regarding agencies. There was general agreement with the content of these paragraphs in the draft report. To help clarify the intended application of paragraph 8, the word "effectiveness" in that paragraph was changed to "effective formulation and implementation" by actual consent. After extensive discussion of the advisability of developing some more detailed and illustrative application of the third paragraph of the draft report, it was concluded that the report should be forwarded to the Reserve Bank Presidents with no changes other than the specified language alterations agreed to at this and the October 22 meeting. Further details of interpretation to be developed in oral discussion at a joint meeting of the Board and the Reserve Banks.

Minutes of the Board of Governors of the Federal Reserve System
 on Tuesday, October 27, 1970. The Board met in the Board Room at
 10:00 a.m.

PRESENT: Mr. Burns, Chairman
 Mr. Robertson, Vice Chairman
 Mr. Mitchell
 Mr. Daane
 Mr. Maisel
 Mr. Brimmer
 Mr. Sherrill
 Mr. Holland, Secretary

The Board continued the discussion begun at its October 22, 1970, meeting of the proposed voluntary guide to conduct for senior Federal Reserve officials, with particular reference to paragraphs 7, 8, and 9, concerning speeches. There was general agreement with the thrust of those paragraphs in the committee report. To help clarify the intended application of paragraph 8, the word "effectiveness" in that paragraph was changed to "effective formulation and implementation" by mutual consent. After extensive discussion of the advisability of developing some more detailed and illustrative amplification of the final three paragraphs of the committee report, it was concluded that the report should be forwarded to the Reserve Bank Presidents with no changes other than the specified language alterations agreed to at this and the October 22 meeting, leaving details of interpretation to be developed in oral discussion at a joint meeting of the Board and the Presidents.

1970, Mr. Brimmer introduced a draft of articles, of which Mr. Andrew

10/27/70

The following then entered the room:

- Mr. Kenyon, Deputy Secretary
- Mr. Broida, Assistant Secretary
- Mr. Grimwood, Defense Planning Coordinator
- Mr. Leonard, Assistant Secretary
- Mr. Partee, Adviser to the Board and Director, Division of Research and Statistics
- Mr. Solomon, Adviser to the Board and Director, Division of International Finance
- Mr. Molony, Assistant to the Board
- Mr. Coyne, Special Assistant to the Board
- Mr. O'Brien, Special Assistant to the Board
- Mr. O'Connell, General Counsel
- Mr. Solomon, Director, Division of Supervision and Regulation
- Mr. Johnson, Director, Division of Personnel Administration
- Mr. Axilrod, Associate Director, Division of Research and Statistics
- Mr. Gramley, Associate Director, Division of Research and Statistics
- Mr. Keir, Associate Adviser, Division of Research and Statistics
- Mr. Hersey, Adviser, Division of International Finance
- Mr. Norwood, Adviser, Division of International Finance
- Mr. Leavitt, Deputy Director, Division of Supervision and Regulation
- Mr. Egertson, Assistant Director, Division of Supervision and Regulation
- Miss Hart, Assistant Director, Division of Supervision and Regulation
- Mr. Lyon, Assistant Director, Division of Supervision and Regulation
- Mrs. Semia, Technical Assistant, Office of the Secretary

Other appropriate members of the staff also attended portions of the meeting.

Open market policy article. With a memorandum dated October 9, 1970, Mr. Partee transmitted a draft of article, of which Mr. Axilrod

10/27/70

-3-

was the principal author, regarding "Formulation and Implementation of Federal Reserve Open Market Policy." The article had been prepared in accordance with the wishes of the Board and the Federal Open Market Committee to help explain the open market policy process as it had evolved during the past year. The expectation was that after clearance by the Board and solicitation of comments by the President-members of the Committee, the article would be published in the Federal Reserve Bulletin. The primary focus of the discussion was the desired scope of the paper. It was observed that although the title implied coverage of the entire ambit of policy formulation, the draft paper was in fact a relatively narrow technical exposition. A choice must be made between a technical paper that would be understood by and be of interest to a small number of readers who were expert in the field, such as the managers of the money desks of large commercial banks, or a broader treatment that would in effect provide a revision of the material regarding open market operations in "The Federal Reserve System: Purposes and Functions" or the New York Reserve Bank's publication entitled "Federal Reserve Operations in the Money and Government Securities Market," by Robert V. Roosa. The latter would be of interest to a larger reading public such as scholars and financial writers who follow open market policy. The staff indicated that it had understood its assignment to call for the narrower treatment.

10/27/70

-4-

Chairman Burns mentioned a number of elements that he thought should be included in a broader study, including a description of the preparatory work done by the staff and members of the Committee, of the decision-making process at meetings of the Committee, and of what happens between meetings. He also thought that the inclusion of a few concrete examples would promote clarity.

Procedural points mentioned included the possibility of publishing two documents, of using a medium other than the Federal Reserve Bulletin, and of requesting the views of some of the Board's economic consultants before publication.

In response to a suggestion that the staff prepare two outlines for the Board's consideration, one for a shorter and technical treatment and the other for a broader approach, some sentiment was expressed for moving ahead promptly with one or the other approach. Accordingly, it was agreed that the staff would revise the present draft, retitling it, rewriting the statement of purpose, and shortening it somewhat. The draft would then be submitted for the Board's further consideration.

Georgia Railroad Bank & Trust Company. The Board authorized the issuance of orders reflecting approval on October 22, 1970, of the applications of Georgia Railroad Bank & Trust Company, Augusta, Georgia, to merge Metropolitan State Bank, Augusta, Georgia, and Richmond County Bank, also of Augusta. Copies of the orders are attached as Items 1 and 2, respectively.

10/27/70

-5-

Society Corporation. After review of relevant documentation, the Board unanimously approved the application of Society Corporation, Cleveland, Ohio, to acquire shares of Tri-County National Bank, Fostoria, Ohio, and authorized the issuance of an order reflecting that decision. A copy is attached as Item No. 3.

Bank of America. In a memorandum dated October 12, 1970, the Division of Supervision and Regulation recommended approval of the application of Bank of America National Trust and Savings Association, San Francisco, California, for permission to organize an additional Edge corporation to be known as Bank of America International of Florida, to be located in Dade County, Florida. The applicant at present was authorized to have three Edge corporations, located in New York, San Francisco, and Chicago.

Governor Brimmer said that although he would support the present application, he continued to be concerned, as he had stated at the meeting on August 20, 1970, about multiple Edge corporations. He thought the Board should take the view that it would be proper for a bank to have a small number of Edge corporations outside its head office territory, to be located in principal foreign trade areas, but that it would not be proper to have more than one corporation in any one section of the country. Thus he had dissented from the action allowing First National City Bank, New York, New York, to have an Edge corporation in Los Angeles as well as one in San Francisco.

10/27/70

-6-

Governor Robertson said he would not vote to approve the present application. He believed that trouble would result if banks were permitted to establish an Edge corporation in every section of the country. Such corporations in effect would be branches, and he did not believe that the Edge Act was intended to allow such a result. Applications should be evaluated in this over-all context even if in particular cases it seemed that the proposals might increase competition. He did not see the need for Bank of America to have an Edge corporation in Florida, and he advised caution lest the Board find itself in a position where, having approved one or more such applications, its ability to deny others might be prejudiced. Applications should be probed carefully for any indication that the purpose was to promote not only foreign but also domestic business.

Chairman Burns expressed the view that the primary questions were whether the proposed corporation would in fact seek to promote foreign business or whether it was a vehicle for promoting domestic business; whether the proliferation of Edge corporations by a single bank was consistent with sound banking practices; and whether the proposed corporation would promote competition among banks in the foreign area. If no problems were found within those questions, he did not see that the Board should substitute its judgment for that of bank management.

10/27/70

-7-

Governor Brimmer commented that his position on the California case also had been based on the thrust of the statute; he understood the law to say that Edge corporations could be established only to promote foreign trade. The staff's memorandum had cast some doubt as to whether that was the case.

Governor Maisel observed that the majority of the Board had been guided by the fact that section 25(a) of the Federal Reserve Act does not restrict the number of Edge corporations an individual bank may establish, or the geographic locations of those corporations. It only restricts the type of business that may be done by such corporations.

Mr. Frederic Solomon pointed out that section 25(a) implies (but does not state) that an Edge corporation is not to have domestic branches. He believed that the Board would be acting within its authority if it ruled that approving multiple Edge corporations would be tantamount to approving domestic branches of Edge corporations.

After further discussion of the issues that had been raised, the application of Bank of America to establish an Edge corporation in Dade County, Florida, was approved, Governor Robertson dissenting. A copy of the letter sent to the applicant is attached as Item No. 4.

"Block-positioning". The Divisions of Supervision and Regulation and Research and Statistics, in a memorandum dated October 2, 1970, recommended publication for comment of an amendment to Regulation U, Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks,

10/27/70

-8-

to provide an exemption for credit extended by banks to "block-positioning" firms. Block-positioners are securities firms that stand ready to position substantial blocks of stock in order to facilitate the sale or purchase by their customers of quantities of stock too large to be absorbed by ordinary market trading mechanisms.

The proposed exemption would parallel a proposal published for comment in May 1969 to exempt from margin requirements bank credit extended to so-called "third-market makers" to enable them to carry out their market-making activity. Industry comments on that proposal had been favorable, but it had been urged that a parallel exemption be granted at the same time for the block-positioners. Implementation of the third-market maker proposal had been postponed pending study of the use of credit in the block-positioning function.

The staff also recommended that existing exemptions and the proposed third-market exemption be amended, in such a way as to make the credit extended for positioning blocks in the amounts specified subject to the requirements of the proposed block-positioning exemption. The several proposed amendments were reflected in a draft of Federal Register notice attached to the October 2 memorandum. The staff proposed that reporting requirements, which would have to be imposed by rule of the Securities and Exchange Commission, call for sufficient detail to enable the Commission to check for abuses.

10/27/70

-9-

Neither of the proposed exemptions could be implemented without the agreement of and cooperation by the Securities and Exchange Commission. Thus far, the Commission itself had not formally considered either the third-market or the block-positioner proposal, and had not proposed a rule to implement the registration and record-keeping requirements of the third-market proposal. It did not seem likely that the Commission's staff would submit draft rules to the Commission unless the Commission itself directed it to do so. Although the Commission's staff had been cooperative in working out the proposals, it preferred to wait for analysis of the results of the Institutional Investor Study before adopting any credit exemption. It was anticipated that the study would be completed early in 1971, and that, if the Board decided to await the publication of the study, the time necessary for subsequent procedures would mean that the exemptions might not be operative until the end of 1971. The Board's staff believed that the risks of leaving the market without a credit exemption that considerable study had indicated to be justified, in a period when volume of trading might again be rising and brokerage capital might again be strained by recurring back office problems, outweighed any potential advantages to be gained from waiting for completion of the Institutional Investor Study.

Discussion indicated a predominant view that it would not be desirable for the Board to publish the proposals for comment unless the

10/27/70

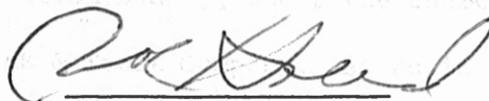
-10-

Securities and Exchange Commission was prepared to take the necessary related actions. (Governor Maisel, however, advocated that the Board push ahead with the proposals, which he regarded as a policy question for the Federal Reserve.) It was understood that an informal personal approach would be made to Commission members to indicate the Board's general sympathy with the proposals but it was also agreed that it would be desirable for Chairman Burns to write directly to the Chairman of the Securities and Exchange Commission.

Accordingly, unanimous approval was given to the sending of a letter in the form attached as Item No. 5.

Employee loan fund. The Board unanimously approved a letter to the Federal Reserve Bank of Atlanta approving an increase from \$15,000 to \$50,000 in the total amount of emergency loans the Bank might make to its employees. A copy of the letter is attached as Item No. 6.

The meeting then adjourned.



Secretary

Item No. 1
10/27/70

UNITED STATES OF AMERICA
BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C.

In the Matter of the Application of
GEORGIA RAILROAD BANK & TRUST COMPANY,
Augusta, Georgia,
for approval of merger with
Metropolitan State Bank,
Augusta, Georgia.

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 Georgia Railroad Bank & Trust Company, Augusta, Georgia ("Applicant"), a member State bank of the Federal Reserve System, for the Board's prior approval of the merger of that bank and Metropolitan State Bank, Augusta, Georgia ("Metropolitan Bank"), under the charter and name of Georgia Railroad Bank & Trust Company. As an incident to the merger Metropolitan Bank would become a branch office of Applicant under Georgia law effective January 1, 1971. Notice of the proposed merger, in the form approved by the Board, has been published as required by said Act.

Pursuant to the Act, the Board requested reports on the competitive factors involved from the Attorney General, the Comptroller of the Currency, and the Federal Deposit Insurance

-2-

Corporation. The Board has considered all relevant material contained in the record in the light of the factors set forth in the Act, including the effect of the proposal on competition, the financial and managerial resources and prospects of the banks concerned, and the convenience and needs of the communities to be served, and finds that:

Applicant, with deposits of \$133 million, is the fifth largest bank in Georgia, having about 2 per cent of the commercial bank deposits in the State. (All banking data are as of December 31, 1969.) Metropolitan Bank has deposits of about \$4 million; consequently, consummation of the proposed merger would not increase substantially the concentration of banking resources in the State of Georgia.

Applicant maintains six offices, all located in or around Augusta in Richmond County. Metropolitan Bank maintains its sole office in Richmond County. Applicant and Metropolitan Bank hold, respectively, about 49 per cent and 1.5 per cent of Richmond County deposits. The closest office of Applicant to Metropolitan Bank is approximately four miles distant. There are, however, alternative banking facilities located in the area which intervenes between the offices of Applicant and Metropolitan Bank.

Applicant was instrumental in organizing Metropolitan Bank, which obtained its charter in 1963. The merging banks have been closely associated since that time by virtue of common shareholders.

-3-

Applicant has provided Metropolitan Bank with various officers and employees, including chief executive officers, for the purpose of assisting Metropolitan Bank in providing services to its customers since it opened. Metropolitan Bank has relied to a substantial extent on Applicant in its operation. Applicant is Metropolitan Bank's principal correspondent bank; it assists Metropolitan Bank with investments, advises on loan applications, handles Metropolitan Bank's money supply and computer operations, and has solicited customers for Metropolitan Bank's credit card program. There is no indication that the close relationship which exists between Applicant and Metropolitan Bank is likely to change in the foreseeable future, regardless of the Board's action with respect to the present application. In view of the close relationship which has existed between Applicant and Metropolitan Bank, it may be reasonably concluded that present and potential competition would neither be foreclosed by approval of the application, nor encouraged by its denial. It does not appear that competition with and between other banks in Richmond County would be affected in any significant way.

The Board concludes that consummation of the proposal would not have an adverse effect on competition in any relevant area. Consummation of the merger would provide customers of Metropolitan Bank with more convenient access to certain banking services which are not now being offered by Metropolitan Bank. Based upon the foregoing, it is the Board's judgment that consummation of the proposal would be in the public interest, and that the application should be approved.

-4-

IT IS HEREBY ORDERED, on the basis of the findings summarized above, that said application be and hereby is approved, provided that the merger so approved shall not be consummated (a) before January 1, 1971, 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.

By order of the Board of Governors, October 27, 1970.

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

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon
Deputy Secretary

(SEAL)

UNITED STATES OF AMERICA
BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C.

In the Matter of the Application of
GEORGIA RAILROAD BANK & TRUST COMPANY,
Augusta, Georgia,
for approval of merger with
Richmond County Bank,
Augusta, Georgia.

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 Georgia Railroad Bank & Trust Company, Augusta, Georgia ("Applicant"), a member State bank of the Federal Reserve System, for the Board's prior approval of the merger of that bank and Richmond County Bank, Augusta, Georgia ("Richmond Bank"), under the charter and name of Georgia Railroad Bank & Trust Company. As an incident to the merger the two offices of Richmond Bank would become branches of Applicant under Georgia law effective January 1, 1971. Notice of the proposed merger, in the form approved by the Board, has been published as required by said Act.

Pursuant to the Act, the Board requested reports on the competitive factors involved from the Attorney General, the Comptroller

of the Currency, and the Federal Deposit Insurance Corporation. The Board has considered all relevant material contained in the record in the light of the factors set forth in the Act, including the effect of the proposal on competition, the financial and managerial resources and prospects of the banks concerned, and the convenience and needs of the communities to be served, and finds that:

Applicant, with deposits of \$133 million, is the fifth largest bank in Georgia, having about 2 per cent of the commercial bank deposits in the State. (All banking data are as of December 31, 1969.) Richmond Bank has deposits of about \$6 million; consequently, consummation of the proposed merger would not increase substantially the concentration of banking resources in the State of Georgia.

Applicant maintains six offices, all located in or around Augusta in Richmond County. Richmond Bank maintains its two offices in Richmond County. Applicant and Richmond Bank hold, respectively, about 49 per cent and 2 per cent of Richmond County deposits. The closest offices of the merging banks are approximately three miles apart. There are, however, alternative banking facilities located in the areas which intervene between the offices of Applicant and Richmond Bank.

Applicant was instrumental in organizing Richmond Bank which obtained its charter in 1955. The merging banks have been affiliated by reason of common ownership since 1958. Applicant has provided Richmond Bank with various officers and employees, including chief

executive officers, for the purpose of assisting Richmond Bank in providing services to its customers since it opened. Moreover, Richmond Bank has relied to a substantial extent on Applicant in its operation. Applicant is Richmond Bank's principal correspondent bank; it assists Richmond Bank with investments, advises on loan applications, handles Richmond Bank's money supply and computer operations, and has solicited customers for Richmond Bank's credit card program. There is no indication that the close relationship which exists between Applicant and Richmond Bank is likely to change in the foreseeable future, regardless of the Board's action with respect to the present application. In view of the close relationship which has existed between Applicant and Richmond Bank, it may be reasonably concluded that present and potential competition would neither be foreclosed by approval of the application, nor encouraged by its denial. It does not appear that competition with and between other banks in Richmond County would be affected in any significant way.

The Board concludes that consummation of the proposal would not have an adverse effect on competition in any relevant area. Consummation of the merger would provide customers of Richmond Bank with more convenient access to certain banking services which are not now being offered by Richmond Bank. Based upon the foregoing, it is the Board's judgment that consummation of the proposal would be in the public interest, and that the application should be approved.

IT IS HEREBY ORDERED, on the basis of the findings summarized above, that said application be and hereby is approved, provided that the merger so approved shall not be consummated (a) before

-4-

January 1, 1971, 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.

By order of the Board of Governors, October 27, 1970.

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

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon
Deputy Secretary

(SEAL)

10/27/70

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of
SOCIETY CORPORATION,
Cleveland, Ohio,
for approval of acquisition of 80
per cent or more of the voting shares
of Tri-County National Bank, Fostoria,
Ohio.

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)), the application of Society Corporation, Cleveland, Ohio ("Applicant"), a registered bank holding company, for the Board's prior approval of the acquisition of 80 per cent or more of the voting shares of Tri-County National Bank, Fostoria, Ohio ("Bank").

As required by section 3(b) of the Act, the Board gave written notice of receipt of the application to the Comptroller of the Currency, and requested his views and recommendation. The Comptroller offered no objection to approval of the application.

-2-

Notice of receipt of the application was published in the Federal Register on September 15, 1970 (35 Federal Register 14485), providing an opportunity for interested persons to submit comments and views with respect to the proposal. 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.

The Board has considered the application in the light of the factors set forth in section 3(c) of the Act, including the effect of the proposed acquisition on competition, the financial and managerial resources and future prospects of the Applicant and the banks concerned, and the convenience and needs of the communities to be served. Upon such consideration, the Board finds that:

Applicant, the second largest bank holding company and the fourth largest banking organization in Ohio, controls eight banks with aggregate deposits of \$985 million, representing 4.8 per cent of the commercial bank deposits in the State. (All banking data are as of December 31, 1969, and reflect holding company actions approved by the Board to date.) Upon acquisition of Bank (\$40.1 million deposits), Applicant would control 5.0 per cent of the commercial bank deposits in the State; its position relative to other banking organizations and holding companies would remain the same.

Bank is headquartered in Fostoria, 100 miles southwest of Cleveland, and operates nine offices in three counties: five offices in Seneca, three offices in Wood, and one office in Hancock. Under

-3-

Ohio law, a bank may branch in the county in which its main office is located. Since the corporate limits of Fostoria extend into three counties, Bank may establish branches in each of the counties. In that three county area, Bank is the third largest of 23 banks, and controls 10.1 per cent of the area deposits. Applicant's closest subsidiary to bank has a branch office in Sandusky County, 18 miles east of one of Bank's branches in Wood County, and neither it nor any other of Applicant's present subsidiaries compete with Bank to a significant extent. Nor does it appear likely that such competition would develop because of the distances between Applicant's present subsidiaries and Bank; furthermore, under Ohio law, none of Applicant's present subsidiaries can establish branches in any of the counties served by Bank.

Based upon the foregoing, the Board concludes that consummation of the proposal would not have an adverse effect on competition in any relevant area. The banking factors, as they relate to Applicant, its subsidiaries, and Bank are regarded as consistent with approval. Considerations relating to the convenience and needs of the communities to be served lend weight in support of approval; Applicant proposes to expand many of Bank's present services and to make trust and international services available through Applicant's largest subsidiary, in Cleveland. It is the Board's judgment that the proposed transaction would be in the public interest, and that the application should be approved.

- 4 -

IT IS HEREBY ORDERED, for the reasons set forth in the findings summarized above, that said application be and hereby is approved, provided that the action 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 time be extended for good cause by the Board, or by the Federal Reserve Bank of Cleveland pursuant to delegated authority.

By order of the Board of Governors, October 27, 1970.

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

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Deputy Secretary.

(SEAL)

BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

2973

Item No. 4

10/27/70



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 27, 1970

Mr. C. M. van Vlierden,
Executive Vice President,
Bank of America National Trust
and Savings Association,
Bank of America Center,
San Francisco, California. 94104

Dear Mr. van Vlierden:

The Board of Governors has approved the Articles of Association and the Organization Certificate, dated August 27, 1970, of Bank of America International of Florida, and there is enclosed a preliminary permit authorizing that Corporation to exercise such of the powers conferred by Section 25(a) of the Federal Reserve Act as are incidental and preliminary to its organization.

Except as provided in Section 211.3(a) of Regulation K, the Corporation may not exercise any of the other powers conferred by Section 25(a) until it has received a final permit from the Board authorizing it generally to commence business. Before the Board will issue its final permit to commence business, the president, treasurer, or secretary, together with at least three of the directors, must certify (1) that each director is a citizen of the United States; (2) that a majority of the shares of capital stock is held and owned by citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the laws of the United States or of a State of the United States, or by firms or companies the controlling interest in which is owned by citizens of the United States; and (3) that of the authorized capital stock specified in the Articles of Association at least 25 per cent has been paid in in cash and that each shareholder has individually paid in in cash at least 25 per cent of his stock subscription. Thereafter, the treasurer or secretary shall certify to the payment of the remaining instalments as and when each is paid in, in accordance with law.

Mr. C. M. van Vlierden

-2-

Your attention is directed to the fact that Bank of America International of Florida will have no separate base under the foreign credit restraint effort and any foreign loans or investments will need to be made under the ceiling of Bank of America National Trust and Savings Association and its subsidiaries. Accordingly, the foregoing approval is given with the understanding that any foreign loans and investments of the Corporation will be made within the guidelines established under the foreign credit restraint effort now in effect as they apply to the foreign lending and investment activities of your bank and its subsidiaries and that due consideration will be given to the priorities contained therein.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Deputy Secretary.

Enclosure.

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

October 27, 1970

Preliminary Permit

IT IS HEREBY CERTIFIED that the Board of Governors of the Federal Reserve System, pursuant to authority vested in it by Section 25(a) of the Federal Reserve Act, as amended, has this day approved the Articles of Association and Organization Certificate dated August 27, 1970, of BANK OF AMERICA INTERNATIONAL OF FLORIDA duly filed with said Board of Governors, and that BANK OF AMERICA INTERNATIONAL OF FLORIDA is authorized to exercise such of the powers conferred upon it by said Section 25(a) as are incidental and preliminary to its organization pending the issuance by the Board of Governors of the Federal Reserve System of a final permit generally to commence business in accordance with the provisions of said Section 25(a) and the rules and regulations of the Board of Governors of the Federal Reserve System issued pursuant thereto.

By (SEAL) (Signed) Kenneth A. Kenyon
Kenneth A. Kenyon,
Deputy Secretary.

Item No. 5
10/27/70CHAIRMAN OF THE BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

November 9, 1970

The Honorable Hamer Budge, Chairman
Securities and Exchange Commission
500 North Capitol Street, N.W.
Washington, D.C. 20549

Dear Hamer:

The Board of Governors believes that it would be beneficial to the securities markets if bank credit were made available to so-called "block positioning" firms under an exemption from the normal margin requirements of the Board's Regulation U, "Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks." We are defining block-positioners as those firms that stand ready to position substantial blocks of stock in order to facilitate the sale or purchase by their customers of quantities of stock too large to be absorbed by ordinary market trading mechanisms.

After considering an extensive staff study of the subject, the Board has concluded that block positioners add significant and valuable liquidity to the securities market, that they lend a stabilizing influence to the market and, therefore, that credit used in the block positioning function does not tend to have a destabilizing effect. The Board has also concluded that it would be highly desirable for such an exemption to be made effective at the earliest possible time, compatible with due consideration and an appropriate opportunity for public comment. The Board has arrived at this conclusion in light of its assessment of current economic and financial market conditions and the continuing increase in the volume of institutional trading in large blocks.

The Board recognizes that certain changes in the structure of the securities markets may result from the findings of the Institutional Investor Study now being completed by the Commission and that these changes may at some future time imply the need for conforming modification in margin regulations. Amendments in margin regulations might be postponed until these changes have been formulated, proposed, debated, and introduced. However, the Board believes that in view of its responsibilities under section 7 of the Securities Exchange Act

The Honorable Hamer Budge

-2-

of 1934, it should adapt margin regulations to evolving credit needs of the securities markets as these needs arise. Because of new market-making patterns that have already developed in exchange and off-exchange markets through the active growth of third market and block positioning activities, the Board considers that there is a need for prompt availability of exempted credit to finance these activities.

The Board is aware that availability of exempt block positioning credit could be abused to the extent that it was used by firms to position stock for investment purposes. Exempt credit is already available to specialists on the exchange and to OTC market makers, under existing provisions of the Board's margin regulations, to position blocks of stock in which the firms are registered. Availability of exempt credit to the Third market makers (under a proposal published by the Board for comment on May 15, 1969), and to block positioning firms, would increase the potential for abuse if the exemptions were not carefully framed and their utilization subject to appropriate supervision. Accordingly, the proposed exemptions would be accompanied by certain controls, including a net capital requirement, a minimum size of block to be positioned, a time limit for which the credit would be available, and a reporting requirement. These controls would apply to credit used to position blocks by all market maker firms, whether specialists, OTC market makers, Third market makers, or block-positioners.

Your Division of Trading and Markets has worked closely with the Board's staff in developing the proposed controls, and the Board appreciates the cooperation your staff has provided in bringing these proposals to the point of being ready to be published for comment. However, since the Commission is the agency of the government entrusted with primary responsibility for supervision of broker/dealers, and the enforcement of margin regulations, the proposals cannot be effectuated without serious risk of abuse unless your Commission simultaneously adopts rules imposing appropriate registration and record-keeping requirements on firms that would be entitled to the new exemptions.

Accordingly, the Board would appreciate being advised as to your Commission's willingness to proceed with the formulation and publication for comment of rules implementing the supervision and enforcement aspects of the proposed Third market maker and block-positioner provisions of Regulation U. Copies of drafts of language to be published by the Board in the Federal Register regarding these provisions have already been supplied to the

BOARD OF GOVERNORS

The Honorable Hamer Budge

-3-

10/27/76

FEDERAL RESERVE SYSTEM

10/27/76

staff of your Division of Trading and Markets, and copies of a revised draft, prepared in accordance with further comments furnished by your staff, are enclosed herewith.

Sincerely,

October 27, 1976

(Signed) Arthur F. Burns

Arthur F. Burns

Enclosure
Mr. Kinsal, President
Federal Reserve Bank of Atlanta
Atlanta, Georgia 30303

Dear Mr. Kinsal:

As requested in your letter of September 13, the Board of Governors has approved the proposed bank's employee loan fund from \$10,000 to \$100,000 with the understanding that: (1) the fund's proceeds will be used only to make short-term loans to employees transferred to the branch office for performance of essential, the purchase of a house in the Atlanta area before settlement is completed on the sale of the employee's present house; (2) the \$100,000 limit will cover loans of \$10,000 upon the repayment of such loans, less any interest thereon, if any, established as a source of all new loans of Reserve Bank employee loan funds by the first quarter of 1977; and (3) in the event that default of the proceeds in (2) occurs, the continuation of the \$100,000 limit will be reviewed in one year from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon

Secretary

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

Item No. 6
10/27/70



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 27, 1970

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

Dear Mr. Kimbrel:

As requested in your letter of September 23, the Board of Governors has approved an increase in the Bank's employee loan fund limit from \$15,000 to \$50,000 with the understanding that: (1) the additional Bank funds will be used only to make short-term loans to employees transferred to the Miami office for the purpose of facilitating the purchase of a house in the Miami area before settlement is completed on the sale of the employee's present house; (2) the \$50,000 limit will revert back to \$15,000 upon the repayment of such loans, or to a revised limit, if any, established as a result of the current study of Reserve Bank employee loan funds by the Conference of Presidents; and (3) in the event that neither of the preceding in (2) occurs, the continuation of the \$50,000 limit will be reviewed in one year from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon
Deputy Secretary