

Minutes of the Board of Governors of the Federal Reserve System
 on Thursday, November 5, 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

Mr. Kenyon, Deputy Secretary

Mr. Leonard, Assistant Secretary

Mr. Solomon, Adviser to the Board and
 Director, Division of International
 Finance

Mr. Hackley, Assistant to the Board

Mr. Hexter, Assistant to the Board

Mr. Molony, Assistant to the Board

Mr. Cardon, Assistant to the Board

Mr. Coyne, Special Assistant to the Board

Mr. O'Brien, Special Assistant to the Board

Mr. Solomon, Director, Division of Supervision
 and Regulation

Mr. Sanders, Assistant General Counsel

Mr. Noble, Assistant General Counsel

Mr. Axilrod, Associate Director, Division
 of Research and Statistics

Mr. Reynolds, Associate Director, Division
 of International Finance

Mr. Norwood, Adviser, Division of International
 Finance

Mr. Gemmill, Associate Adviser, Division of
 International Finance

Mr. Leavitt, Deputy Director, Division of
 Supervision and Regulation

Mr. Dahl, Assistant Director, Division of
 Supervision and Regulation

Mr. Egertson, Assistant Director, Division
 of Supervision and Regulation

Mr. Lyon, Assistant Director, Division of
 Supervision and Regulation

Miss Wolcott, Technical Assistant, Office of
 the Secretary

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

Connecticut Bank & Trust Company. Drafts of an order and statement reflecting the Board's denial on October 22, 1970, of the application of The Connecticut Bank & Trust Company, Hartford, Connecticut, to merge The North Side Bank and Trust Company, Bristol, Connecticut, had been distributed.

The issuance of the order and statement was authorized. Copies of the documents are attached under Item No. 1.

Nassau branches. In a memorandum dated September 23, 1970, the Division of International Finance reviewed the activities of existing Nassau "shell" branches of member banks and their Edge corporations and reached the conclusion that the two principal functions of such a branch were to advance funds to the head office to supplement the latter's liquidity and to permit the parent bank to make loans to foreigners without conflict with the voluntary foreign credit restraints and without adverse effect on the U.S. balance of payments. The Division also expressed the view that tax factors alone might be an adequate incentive for both shell and non-shell branches to continue to be opened and maintained in Nassau even if the principal original reasons for their establishment were to disappear. The Division believed that the shells were not being used to any significant degree to divert U.S. resident deposits from head offices, that low cost factors made Nassau branches attractive, and that remoteness from corporate clients would limit the growth of Nassau branch activities.

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As a further basis for Board review of the issues, the staff in a memorandum dated October 22, 1970, had discussed the following questions:

1. What should be the Board position on applications for foreign branches where the function of the branch would be to minimize tax liabilities of the bank or of its customers? Should the position be the same for limited-service and full-service branches?

2. Should a bank be permitted to open a Nassau branch if it is already operating a full-service branch or branches elsewhere; conversely, should a bank be permitted to retain a Nassau branch after it opens a full-service branch elsewhere?

3. Should the Board sanction the establishment of shell branches in locations other than Nassau?

Reference was also made to an April 20, 1970, memorandum on Nassau branches, which contained a section on measures to be taken during bank examinations to ascertain that shell branches in Nassau were being operated in accordance with the conditions attached to the Board's consent for their establishment. A copy of a letter to the Vice Presidents in charge of examinations at Federal Reserve Banks containing instructions on the reports to be made on Nassau branches in conjunction with head office examinations was attached to the October 22, 1970, memorandum.

Memoranda relating to requests of the following banks for permission to establish branches in Nassau had also been distributed:

The First National Bank of Miami, Miami, Florida
 Bankers Trust Company, New York, New York

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LaSalle National Bank, Chicago, Illinois, but he was unable to
 Industrial National Bank, Providence, Rhode Island, which he
 The Huntington National Bank of Columbus, Columbus, Ohio, had not
 First and Merchants National Bank, Richmond, Virginia, and
 Marine National Exchange Bank of Milwaukee, Milwaukee,
 Wisconsin

In each instance the staff recommendation was favorable. None of the
 banks operated foreign branches, except that Bankers Trust Company had
 full-service branches in London and Paris. Preliminary consideration
 had been given to the application of First National Bank of Miami at
 the meeting on August 27, 1970, at which time question had been raised

as to the proposed operations of the branch in light of the bank's
 statement that the branch would serve as an off-shore depository for
 Latin American customers. A subsequent memorandum dated September 25
 from the Division of Supervision and Regulation discussed some of the
 operations contemplated.

Governor Mitchell indicated that he was apprehensive about the
 Nassau branch situation. It was possible that havens from taxes and
 from supervision were being promoted through the device. He was
 uncertain as to the amount of regulation that was imposed, and several
 questions had occurred to him for which he had not found the answers,
 for instance, whether laws of the Bahamas permitted the use of numbered
 accounts. He noted from the staff documents that approximately nine-tenths

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of the Nassau branch liabilities were inter-bank, but he was unable to determine the source of the other accounts. That question, which he had raised in connection with the First National of Miami case, had not yet been clarified. He wondered what sort of restraint would be placed upon the Nassau branches if a requirement that only deposits of other banks could be accepted were imposed.

The ensuing discussion touched upon the types of Nassau branch operations and the suitability of examination procedures from the standpoint of providing adequate information for supervisory purposes. It was suggested that the staff prepare a memorandum on the question of adequacy of regulation.

Chairman Burns then stated that the immediate purpose of today's discussion was to determine whether or not to continue granting applications for Nassau branches, and Governor Brimmer proposed that pending and future applications for shell facilities be denied and that the licenses already issued be withdrawn. During an exchange of views, Governor Mitchell indicated that if the question were put to a vote today he probably would abstain, while Governor Daane suggested that additional information was being sought and should be weighed before a decision was reached. Chairman Burns stated that if the question were put today he would vote against the proposal because in his view a conclusive case had not been made.

question during which it was suggested that if the United States

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Governor Brimmer recalled that the shell operations had been initiated as a means of supplying funds from the Euro-dollar market to head offices and making loans to foreigners outside the guidelines of the Voluntary Foreign Credit Restraint Program. Now operations apparently had expanded to a point where the original purposes had been obscured. Chairman Burns stated that even so he was not convinced that the additional operations were necessarily undersirable, and Governors Daane and Maisel agreed.

Governor Mitchell indicated that, while he was not definitely opposed to the Nassau branches, he did not fully understand their operations. If Nassau branches conducted a straight inter-bank operation, he would be less concerned than if they attracted foreign customers who would otherwise conduct their business with the head office.

Governor Robertson expressed the view that, as indicated in the staff memorandum, an issue of first importance was the tax aspect of Nassau operations. He went on to express the opinion that if a bank needed a branch in Nassau in order to avoid the credit restraint program, it should not also have a foreign branch in another location; if it were granted permission to establish a foreign branch elsewhere, it should not continue in Nassau because the main purpose apparently would be to minimize taxes, not only for itself but for others.

There followed further discussion with respect to the tax question during which it was suggested that if the United States

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realized an advantage to its foreign trade and other national interests as a result of Nassau operations, any tax advantages were defensible. Other comments suggested that the tax question was one on which more information was needed, and a suggestion was made that the views of the Treasury Department might be helpful.

In a discussion of the types of Nassau operations that should be deemed permissible, Governor Robertson noted that the basic purpose of licensing foreign branches was to further the foreign commerce of the United States and said that he would support only the establishment of full-service branches. Governor Brimmer indicated he might be satisfied with slightly lesser requirements.

Chairman Burns then suggested that the staff ascertain from the members of the Board the questions that they would like to have explored, and that the staff endeavor to provide the best answers that could be supplied.

Question was then raised as to the disposition of the pending applications. Governor Mitchell was inclined to defer action on the First National Bank of Miami and the Bankers Trust applications pending development of additional information, Governors Daane, Maisel, and Sherrill indicated that they would be willing to approve all of the applications, and Governors Robertson and Brimmer proposed to deny them. Governor Robertson suggested delegating to the staff authority to approve applications for Nassau branches on the grounds that the

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majority did not oppose them in principle. However, Chairman Burns pointed out that all Board members appeared to have doubts on certain aspects of the Nassau operations. Until they were resolved, he felt that the subject was one to which the Board should continue to give its attention.

Following further discussion it was agreed that action on the pending applications would be deferred for a period of two weeks pending development by the staff of additional information along the lines that had been mentioned.

Security Pacific Overseas Corp. On October 22, 1970, the Board had granted consent to the acquisition by Security Pacific Overseas Corp., Los Angeles, California, of shares of Security Pacific Overseas Investment Corporation, a newly-formed Delaware corporation. The Board also had approved the issuance by the latter of 5-year promissory notes to be sold outside the United States. It had been proposed that the notes would be guaranteed by the parent bank, Security Pacific National Bank, the guarantee to be payable in the United States. In its letter to Security Pacific Overseas Corporation the Board had noted that such a guarantee would make the notes direct promissory obligations of Security Pacific National Bank and that if the bank's obligation under the guarantee was payable at any of its offices in the United States such notes would be deposits of the bank under Regulation D (Reserves of Member Banks) and Regulation Q (Interest on Deposits), unless one

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of the exceptions specified in those regulations was applicable. That position reflected an interpretation published in the February 1970 Federal Reserve Bulletin.

However, a further question had been raised by Security Pacific as to the applicability of Regulations D and Q to the offer. In a memorandum dated November 4, 1970, the Legal Division recommended maintaining the position that Regulations D and Q would be applicable to notes of the domestic subsidiary guaranteed by the parent bank if either the notes or guarantee were payable in the United States.

Governor Brimmer indicated that the request for clarification was urgent because Security Pacific would have to decide today whether to attempt to modify its plans or abandon them. Representatives of Security Pacific had suggested that the reasoning behind the May 1970 amendments to the Voluntary Foreign Credit Restraint guidelines relating to flotation of notes with maturities of more than 3 years could be applied, but the Legal Division did not subscribe to that view. Governor Brimmer added that the investment banking group concerned was hopeful that, whatever the technical deficiencies, the Board could find some means to allow the plan to go forward because in their view withdrawal of the plan at this stage would be detrimental to the image of the American financial community. President Hayes of the New York Reserve Bank had indicated that he shared that view.

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Various ways in which the problem might possibly be met were discussed, including a regulatory amendment so that promissory notes issued by a member bank to obtain funds abroad for use abroad would not be regarded as a deposit, but comments indicated a reluctance on the part of the Board to amend a regulation in order to provide a special exception.

It was also suggested that the problem might be met through an interpretation of the words "principally as a means of obtaining funds to be used in its banking business" (appearing in sections 204.1(f) of Regulation D and 217.1(f) of Regulation Q) as not applying to a situation where funds were raised abroad by a subsidiary and used to make long-term investments abroad. However, the risk was noted in starting down such a path.

Following further discussion, it was agreed that the position taken in the letter of October 22, 1970, was appropriate, and it was understood that Security Pacific would be so advised.

Chase Manhattan Overseas Banking Corporation. In a memorandum dated November 4, 1970, Governor Brimmer discussed the proposal of The Chase Manhattan Bank (National Association), New York, New York, to invest in three new institutions (a merchant bank, a medium-term lending bank, and a management service corporation) to be established in the United Kingdom. In each, Chase would hold a one-third interest. Two of the investments would be made by the bank's Edge corporation, Chase

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Manhattan Overseas Banking Corporation, while the third, in the merchant bank, would be made by the bank's one-bank holding company, The Chase Manhattan Corporation. Requests for permission to acquire shares of the medium-term lending bank and the management service corporation had been received by the Board and were discussed in a memorandum dated November 4, 1970, from the Division of Supervision and Regulation, which recommended approval. However, the request for approval of the investment by the one-bank holding company had been made to the Comptroller of the Currency, and the latter had requested the Board's views.

Governor Brimmer recalled that in connection with an earlier request by a national bank to the Comptroller for permission to make an investment in a foreign bank through its one-bank holding company, the Board had expressed serious reservations as to the appropriateness of the proposed procedure on the grounds that the Congress had given the Board primary supervisory responsibility over the foreign investments of member banks. The Comptroller had accepted the Board's recommendation in that case. In a letter dated September 29, 1970, the Office of the Comptroller reiterated its general concurrence with the Board's position but expressed the view that in the present instance an exception to the general policy was warranted since the proposed method of acquisition would be in the best interest of the national bank, the bank did not appear to be attempting to circumvent the

position of the Board and Comptroller of the Currency.

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authority of the Board, and the Board would in any event have jurisdiction over one-bank holding companies under legislation now pending. For reasons set forth, Governor Brimmer recommended that the Board adhere to its earlier position.

Following discussion, unanimous approval was given to Governor Brimmer's recommendation, with the understanding that the Board's position would be transmitted to the Comptroller of the Currency and that action on the applications relating to the medium-term lending bank and the management service corporation would be deferred temporarily. A copy of the letter subsequently sent to the Office of the Comptroller is attached as Item No. 2.

Voluntary Foreign Credit Restraint Program. Governor Brimmer stated that interagency discussion of the U.S. capital restraint programs for 1971 was scheduled for this afternoon. (A background memorandum dated November 4, 1970, had been prepared by the Treasury Department, which had also submitted, under date of November 3, a memorandum from the Department of Commerce spelling out alternatives for liberalization of its Foreign Direct Investment Program, viewed in terms of possible impact on the balance of payments. Copies of these memoranda had been distributed to the members of the Board.) Governor Brimmer noted that the alternatives included no change, a modest change with an estimated balance of payments cost of \$200 million, or a moderate change with an estimated cost of \$450 million. He sought the Board's views as to the position he and Governor Daane should take.

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In this connection, Governor Brimmer referred to his memorandum of November 4, 1970, in which he had passed along for the Board's information the results to date of two related inquiries that had been initiated on U.S. export financing. The first was a survey, using techniques worked out to the satisfaction of the Commerce and Treasury Departments, on the possible effect in 1970 of the Voluntary Foreign Credit Restraint Program on export financing and on exports. Reports thus far had not turned up cases where the VFCR Program had caused the denial of export credit, but the information was not yet adequate to draw firm conclusions. The second inquiry, addressed to a sample of U.S. banks, was intended to establish the percentage of outstanding bank credit subject to VFCR Program ceilings that was for the purpose of financing exports.

Governor Brimmer indicated that work would continue in analyzing the results of the survey, with the thought that a press release might be issued later, probably at the time a decision was announced by the Administration on the capital restraint programs for 1971.

Governor Daane said that he would be inclined to press for no liberalization of the existing programs at this time, since it appeared that there would be considerable capital outflow, and consequent loss in balance of payments terms, even with no modification. However, in terms of negotiating strategy, he recognized that a direct confrontation with other Government agencies might be avoided and pressure from

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the business community minimized if the position taken was not completely inflexible.

Governor Robertson commented that, while he would like to abolish the existing controls, other control devices would have to be in place to be substituted since there was a danger of diminishing confidence in the dollar in view of the current and prospective rate of capital outflows. He was not aware that any other programs had yet been formulated.

Governor Mitchell said that philosophically he would like to dismantle the existing controls, but that in the circumstances he would not tinker with them, and Governor Sherrill agreed that in the present situation one could not afford to move the existing programs around.

Governor Maisel expressed his concern about insulating the balance of payments, to the extent possible, from debate concerning domestic policy.

At the conclusion of the discussion, it was understood that Governors Daane and Brimmer would have in mind in their discussions the views that had been expressed.

First Security Corporation. At the meeting on November 2, 1970, preliminary consideration had been given to the application of First Security Corporation, Salt Lake City, Utah, to acquire shares of First Security Bank of Springville, Springville, Utah, a proposed new bank. (In a memorandum dated October 27, 1970, and related papers, the Division of Supervision and Regulation and the Banking Markets Section

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recommended denial of the application, while the recommendations of the Federal Reserve Bank of San Francisco and the Utah Commissioner of Financial Institutions were favorable.) Expressions by members of the Board had indicated that differences of opinion existed, and it had been agreed to defer action until all Board members could be present.

At the beginning of today's discussion, staff pointed out that an application for permission to organize a new independent bank near the same site had been denied by the Utah State Commissioner on the grounds that it was filed 12 days after that of First Security Corporation and the need for two new banks in Springville could not be substantiated. Subsequently, a revised order was issued by the State Commissioner still denying the application of the independent group but indicating that in the event First Security Corporation's application was denied by the Federal supervisory authorities the application to organize an independent bank would be approved. The staff had not been aware of the revised order at the time of the November 2 discussion.

Comments by members of the Board who had stated tentative positions at the November 2 meeting indicated that they were not inclined to change their positions, and that Governor Sherrill was inclined toward approval of the application.

It was understood that further analysis of the competitive situation would be made by the staff and that the application would be restudied in light of the revised order of the State Commissioner.

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Midwest Bancorporation. A memorandum from the Division of Supervision and Regulation dated November 2, 1970, and other pertinent papers had been distributed in connection with an application of Midwest Bancorporation, Inc., Kansas City, Missouri, to acquire shares of Community State Bank, Kansas City, Missouri. The Division recommended denial, mainly on the grounds that no realistic plan had been suggested for retiring the excessive amount of debt that would be incurred in the proposed acquisition.

Members of the Board expressed the view that efforts to retain banking offices in distressed areas should be encouraged, but they agreed that consummation of the present proposal would appear to leave the holding company in an unsound financial condition. There was some discussion of a suggestion that the applicant be afforded an opportunity to withdraw or amend its proposal, but the consensus favored denial of the present application with an indication in the Board's statement that, while the Board was sympathetic to the needs of the community, it could not look with favor upon an application embodying a plan for financing an acquisition that was unsound.

The application was then denied by unanimous vote, with the understanding that an order and statement along the lines suggested would be drafted for the Board's consideration.

First National Bancorporation. A memorandum from the Division of Supervision and Regulation dated October 28, 1970, and other pertinent

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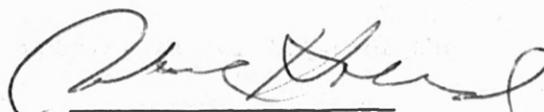
papers, including a proposed order, had been distributed in connection with an application of The First National Bancorporation, Inc., Denver, Colorado, to acquire shares of Montbello State Bank, also of Denver, which would be moved from its present location to a site within a new development. The recommendations were favorable.

Initial remarks indicated that some members of the Board would be inclined to approve the application while others favored denial. The rather complex circumstances of the case were debated, following which action was deferred at the request of Governor Maisel to permit further study of the application in light of points brought out during the discussion.

First National City Overseas Investment Corporation. Unanimous approval was given to a letter to First National City Overseas Investment Corporation, New York, New York, granting consent to the acquisition of shares of an investment company to be formed under the laws of Canada. A copy of the letter is attached as Item No. 3.

Question was raised whether the views of the central bank of Canada should be sought, having in mind the problems that had been encountered when a subsidiary of First National City Bank of New York acquired The Mercantile Bank of Canada, but it was concluded that such an approach was unnecessary in this instance.

The meeting then adjourned.


Secretary

Item No. 1
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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
CONNECTICUT BANK & TRUST COMPANY,
Hartford, Connecticut,
for approval of merger with The North
Side Bank and Trust Company, Bristol,
Connecticut.

ORDER DENYING APPLICATION FOR APPROVAL OF
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 Connecticut Bank and Trust Company, Hartford, Connecticut, a State-chartered member bank of the Federal Reserve System, for the Board's prior approval of the merger of that bank with The North Side Bank and Trust Company, Bristol, Connecticut, under the charter and name of the former institution. 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 record, including reports received pursuant to the Act on the competitive factors involved in the proposed merger, in the light of the factors set forth in said Act,

It is hereby ordered, For the reasons set forth in the Board's Statement of this date, that said application be and hereby is denied.

By order of the Board of Governors, November 5, 1970.

Voting for this action: Unanimous, with all members present and voting.

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon
Deputy Secretary

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

APPLICATION BY
CONNECTICUT BANK AND TRUST COMPANY, HARTFORD, CONNECTICUT,
FOR APPROVAL OF MERGER WITH THE NORTH SIDE BANK AND TRUST COMPANY,
BRISTOL, CONNECTICUT

STATEMENT

Connecticut Bank and Trust Company, Hartford, Connecticut ("CBT") 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 and The North Side Bank and Trust Company, Bristol, Connecticut ("North Side Bank"). The banks would be merged under the charter and name of CBT, which is a member of the Federal Reserve System. As an incident to the merger, the three offices of North Side Bank would become offices of CBT.

Competitive effect of the proposed transaction. - The 10 largest banking organizations in Connecticut control 80 per cent of the commercial bank deposits in that State.^{1/} CBT, the largest bank in the State with 54 branches and deposits of \$330 million, controls 18 per cent of the deposits in the State. Although CBT is a State-wide institution, its operations are centered in the Hartford SMSA, in which it is the largest competitor with 45 per cent of deposits as of June 30, 1968. The two largest

^{1/} Banking data are as of December 31, 1969, except when stated to the contrary.

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banks in the area control 87 per cent of the deposits held by all banks located therein, making Hartford one of the most concentrated metropolitan areas in the United States.

North Side Bank, located in the Bristol-Plymouth area (population 66,400) is the second largest of three banks located therein. Its \$12 million in deposits represents 28 per cent of the deposits in the area. The largest bank located in Bristol-Plymouth controls 53 per cent of that area's deposits and is a subsidiary of a holding company that controls \$170 million deposits.

Bristol, where North Side Bank has its offices is located 15 miles southwest of Hartford. The main offices of the proponents are located about 18 miles apart; their closest offices are 13 miles apart, and CBT has received approval to establish a new branch in Avon, which is 10 miles northeast of Bristol. There is some existing competition between the banks, which is primarily due to persons living in Bristol-Plymouth who commute to the Hartford area. For example, excluding loans which are above the lending limit of North Side Bank, CBT derives commercial and industrial loans from the Bristol-Plymouth area in an amount equal to 33 per cent of such loans made by the smaller bank. Continuing industrial and residential development, together with the completion of new and modern highways between Hartford and Bristol-Plymouth, are expected to fully integrate the two areas shortly.

The Board is of the view that, except under unusual circumstances, large banking organizations in highly concentrated markets should only

be permitted to expand in their own markets de novo. Additionally, the Board applies the same principle in those adjacent markets which appear to be in the process of being integrated into such a concentrated market. It is only in this manner that the undesirable effects of further concentration can be avoided, and the possibilities for deconcentration of such areas can be maintained.

The Board has considered that Connecticut law presently prohibits the establishment of de novo offices in Bristol because it is the location of the home office of North Side Bank. While some favorable weight might be accorded the effect of the present proposal in eliminating "home office protection" in that city, it appears that there are alternative methods of accomplishing that result, which would not involve the anticompetitive effects of the present proposal. In the light of discussions which North Side Bank has had with other Connecticut banking organizations, it is not unlikely that, if the present application is denied, North Side would merge with some other bank and "home office protection" would be removed from Bristol. Even if such action were not to occur, however, the Board is of the view that the anticompetitive effects of the proposed merger would not be outweighed by the benefits accruing from the removal of "home office protection".

Financial and managerial resources and future prospects. -

The financial condition, management and future prospects of CBT and North Side Bank are satisfactory regardless of whether the proposed merger is consummated.

These considerations lend no weight toward approval of the proposal.

Convenience and needs of the communities involved. - The banking needs of the Bristol-Plymouth areas are being adequately served by the banking organizations located therein and in nearby communities. However with the continuing expansion of industry in the Bristol area, it can be expected that more highly sophisticated services will be needed.

The convenience and needs factors provide some weight in favor of approval of the application, but fail to outweigh the serious anticompetitive effects noted earlier.

Summary and conclusion. - On the basis of all relevant facts contained in the record, and in the light of the factors set forth in the Act, it is the Board's judgment that the proposed transaction would not be in the public interest and should be denied.

November 5, 1970.

Respectfully,
[Signature]
Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 2
11/5/70

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 13, 1970

Mr. Robert A. Mullin,
Director, International Division,
Office of the Comptroller of the Currency,
Washington, D. C. 20220

Dear Mr. Mullin:

In your letter of September 29, 1970, the views of the Board were requested on a proposal by The Chase Manhattan Bank, National Association, New York, New York, for its one-bank holding company, The Chase Manhattan Corporation, to purchase and hold a minority interest in Orion Limited, a merchant bank to be formed in the United Kingdom.

The Board's letter to the Comptroller of the Currency, dated April 27, 1970, expressed serious reservations about the appropriateness of banks making foreign investments through one-bank holding companies. Those reservations were founded on the fact that Congress has consistently given the Board of Governors primary supervisory responsibility for authorizing the foreign investments of member banks. The Board has noted that your Office generally concurs in those views.

The Board has considered the reasons put forward in your letter for an exception to that general policy in the case of the proposal of The Chase Manhattan Bank. It is now generally believed that Congress will enact legislation on one-bank holding companies during the current session and that the Board of Governors will be given responsibility of supervising the domestic and international activities of such holding companies. Nevertheless, the Board believes that it would be premature to deviate from the general policy referred to above. Until the legislative situation is clarified and until policies and rules on international operations conducted through holding companies can subsequently be determined, the Board believes that foreign investments of member banks should continue to be made through traditional channels and that the public interest would be better served if proposals of member banks to make foreign investments through one-bank holding companies are not approved.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Deputy Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 3
11/5/70



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 5, 1970

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

Gentlemen:

As requested in your letter of August 19, 1970, the Board of Governors grants consent for your Corporation ("FNCOIC") to purchase and hold all of the shares of stock of a Canadian investment company ("CIC") to be formed under the laws of Canada, at a cost of approximately \$2,437,500, provided the shares are acquired within one year from the date of this letter.

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

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

First National City Overseas
Investment Corporation

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- (3) That any share acquisitions or dispositions by CIC be reported under Section 211.8(d) of Regulation K in the same manner as if CIC were a corporation organized under Section 25(a) of the Federal Reserve Act.

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 so far as they relate to restrictions on loans granted by CIC in Canada in the currency of that country.

Upon completion of the proposed acquisition, it is requested that the Board of Governors be furnished, through the Federal Reserve Bank of New York, with copies of Articles of Association, Memorandum of Association, and By-Laws of CIC.

The foregoing consent is given with the understanding that the investment now being approved 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 Corporation, First National City Bank and its other subsidiaries, and that due consideration is being given to the priorities contained therein.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Deputy Secretary.