

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date January 31, 1984

To Members of the FOMC

Subject: RE: Bush Task Group on
Regulation of Financial
Services -- Bank Regula-
tory Responsibilities

From Chairman Volcker

The Bush Task Group on Regulation of Financial Services is about to have its final meeting to approve a compromise plan for revising bank regulatory responsibilities. The Federal Reserve, on balance, has been able to maintain a significant role in supervision and regulation although, as outlined below, some existing authorities would, under the proposal, be transferred away from the FRB while others would be transferred to the FRB.

The Task Group scheme is, at this stage, only a proposal -- not yet drafted into legislative form and even further away from the Congressional legislative process itself. Parts or all of it are bound to be controversial among banks and others. Although the proposals will have Administration backing, changes will not take place for a considerable time, and they could well be rejected altogether. In other words, Federal Reserve staffs should not take it as a foregone conclusion that this particular proposal will be enacted into law. However, given the direction of the proposal -- for the System to have a potentially larger role in state supervision and regulation -- an opportunity exists for the Reserve Banks to encourage greater interaction between the System and state supervisors at this time.

- 2 -

The broad outlines of the Task Group report on Bank Regulation are as follows:

1. A Federal Banking Agency (FBA) will be created incorporating the Comptroller's responsibilities plus new responsibilities outlined below. The Director of the FBA would report to the Secretary of the Treasury on broad policy issues, budget and staffing.
2. Bank Regulation
 - A. The FBA would regulate, supervise and examine national banks.
 - B. The Federal Reserve would regulate, supervise and examine all state banks, member and nonmember.
 - C. A formal mechanism would be established whereby states could seek "certification" to handle federal supervisory authority over state banks.
 - D. The certification program would be as flexible as possible, with a statutory directive for Federal authorities to defer responsibilities to the states to the maximum degree practicable and prudent.
 - (1) The FRB, FBA, and FDIC by majority would set the criteria for certification, i.e. staffing, expertise, resources, etc. for various "levels" of certification (compliance exams, safety and soundness exams for different size banks, various applications). Similar criteria would be set for bank holding companies.

- 3 -

(2) The FRB would act on specific state applications for certification at various levels and would retain oversight of the process.

(3) Each Reserve Bank would establish a formal "State Advisory Council" for interaction between the FRB and the state banking authorities.

3. Bank holding Companies. (Assumes passage of procedural aspects of FIDA).

A. The FBA would regulate, supervise, and examine holding companies where the lead bank is a national bank.

B. The FRB would regulate, supervise and examine holding companies where:

(1) the lead bank is a state bank, or

(2) the holding company is "international class" i.e., the holding company (i) has a bank with foreign branches or subsidiaries, (ii) has assets of more than 0.5% of aggregate BHC assets, or (iii) is a foreign owned holding company. (See attached list for specific BHCs.)

(3) As noted above, states could be certified to handle certain aspects of BHC supervision.

C. The FBA and FRB would make any changes to existing prudential standards.

D. The FBA and FRB could comment on BHC applications or notices filed with the other agency.

- 4 -

- E. Reporting requirements would be developed by the FBA and FRB with mutual consultation.
- F. For the list of permissible BHC activities and regulations implementing the list or changes to either, the following arrangements between the FBA and FRB would be in place:
 - (1) the FRB could comment on these prior to public comment and could have the comments published along with the proposed regulation.
 - (2) The FRB could veto (by 2/3 majority) final regulations (or order) prior to publication on a determination that adoption would,
 - (a) impair the stability of the U. S. banking System, or
 - (b) have a seriously adverse effect on safe and sound financial practices, with a formal report required.

4. FDIC

- A. The FDIC would remain an independent insurance corporation with a three person Board approved by the President and the Director of the FBA and FRB Chairman (or their designee) as nonvoting members.
- B. The FDIC would be limited to insurance activities with no general supervisory authority.

- 5 -

- C. The FDIC would examine insured banks in a manner comparable to that provided in the recent agreement between the FDIC and the OCC.
- D. The FDIC would continue to handle applications for insurance by nonmember state banks. The FBA and FRB would send copies of applications for charter or membership, respectively, to the FDIC because approval of such applications will continue to convey insurance, and the FDIC would consider the financial and managerial resources of the bank, and in the normal course rely on the determination of the FBA and FRB. If the FDIC did not concur with the FBA or FRB determination, it would advise the agency that it would decline to provide insurance.

5. Other

The FBA and FRB would continue to exercise their respective authorities over foreign bank branches, agencies and subsidiaries operating in the U. S. and U. S. banking organizations operating overseas. The FRB would obtain the authorities of the FDIC pertaining to overseas activities of state nonmember banks.

**U.S. BANK HOLDING COMPANIES WITH FOREIGN BRANCHES
(EXCLUDING SHELLS)**

<u>NAME</u>	<u>LOCATION</u>	<u>BANKING ASSETS</u>	<u>BANKING DEPOSITS</u>
Citicorp	New York	115,487	77,126
BankAmerica Corporation	San Francisco	111,708	90,848
Chase Manhattan Corporation	New York	77,893	55,566
*J.P. Morgan & Co. Incorporated	New York	57,784	40,826
*Manufacturers Hanover Corporation	New York	57,478	42,227
*Chemical New York Corporation	New York	49,667	32,916
Continental Illinois Corporation	Chicago	39,554	27,572
*First Interstate Bancorp	Los Angeles	38,741	30,210
*Bankers Trust New York Corporation	New York	38,728	23,450
Security Pacific Corporation	Los Angeles	34,030	26,190
First Chicago Corporation	Chicago	33,752	26,409
Mellon National Corporation	Pittsburgh	26,373	17,162
InterFirst Corporation	Dallas	23,932	17,086
Wells Fargo & Company	San Francisco	22,762	19,484
*Irving Bank Corporation	New York	19,661	13,051
First National Boston Corporation	Boston	19,055	12,275
Texas Commerce Bancshares, Inc.	Houston	18,603	13,148
RepublicBank Corporation	Dallas	18,452	13,716
First Bank System, Inc.	Minneapolis	18,343	12,140
First City Bancorporation	Houston	16,913	13,109
Northwest Bancorporation	Minneapolis	16,615	12,859
NBD Bancorp, Inc.	Detroit	12,444	8,582
*The Bank of New York Company	New York	12,134	9,121
NCNB Corporation	Charlotte	11,550	8,206
Pittsburgh National Corporation	Pittsburgh	11,549	7,183
Philadelphia National Corporation	Philadelphia	8,758	6,266
Seafirst Corporation	Seattle	8,362	6,325
*Comerica Incorporated	Detroit	7,857	6,258
Southwest Bancshares, Inc.	Houston	7,548	6,364
*Harris Bankcorp, Inc.	Chicago	6,850	4,649
*Northern Trust Corporation	Chicago	6,165	4,177
Rainier Bancorporation	Seattle	5,635	4,657
*Fidelcor, Inc.	Rosemont	5,242	3,985
First Pennsylvania Corporation	Philadelphia	5,123	3,387
Centerre Bancorporation	St. Louis	4,738	3,310
First Wisconsin Corporation	Milwaukee	4,594	3,279
Fleet Financial Group, Inc.	Providence	4,380	3,100
Riggs National Corporation	Washington	4,214	3,346
Bancal Tri-State Corporation	San Francisco	3,907	2,209
First Maryland Bancorp	Baltimore	3,742	2,493
Flagship Banks, Inc.	Miami	3,472	3,036
American Fletcher Corporation	Indianapolis	3,274	2,228
Walter E. Heller International	Chicago	3,178	2,319
*Bancorp Hawaii, Inc.	Honolulu	3,052	2,731
The Central Bancorporation	Cincinnati	2,784	2,204
Deposit Guaranty Corp.	Jackson	2,224	1,609
First National Cincinnati Co.	Cincinnati	2,147	1,466
*Fifth Third Bancorp	Cincinnati	1,711	1,194
*Colonial Bancorp, Inc.	Waterbury	1,332	1,169
*United Bancorp of Arizona	Phoenix	1,169	1,009
		<u>1,014,666</u>	<u>733,232</u>

* Holding companies with majority of assets in State chartered banks.

FOREIGN BANKS WITH U.S. BANK SUBSIDIARIES

<u>Foreign Bank</u>	<u>U.S. Subsidiary Bank</u>	<u>Assets (millions)</u> <u>June 30 1983</u>
Aktivbanken	National Bank of Long Beach	NA
Banque Natle De Paris	Bank of the West	1,168
Bnqs Arabes & Fran	UBAF Arab American Bank	1,424
National Bank of Greece	Atlantic Bank of New York	482
Banca CommI Italiana	Long Island Trust Company	1,179
Banco Di Roma	Banco Di Roma (Chicago)	168
1st Banc San Paolo	First Los Angeles Bank	393
Algemene Bk Nederland	La Salle National Bank	1,263
Banco Exte De Espana	Extebank	319
Banco Zaragozano SA	Miami National Bank	95
Barclays Group	Barclays Bank of NY N A	1,544
	Barclays Bank of California	871
Stand-Chartered Group	Union Bank	7,303
Schroder Group	J Henry Schroder BK & TR CO	1,960
Lloyds Group	Lloyds Bank California	2,446
Natl Westminster Bank	Nat Westminster Bank USA	7,083
Midland Bank Group	Crocker National Bank	25,795
European-American 'Group'	European-American Bank and Trust	5,303
Bank of Montreal	Bank of Montreal Trust Company	73
Scotiabank	Bank of Nova Scotia Trust Co.	<u>1/</u>
Canadian Imperial Bank of Commerce	Canadian Imperial Bank of Comm.(N.Y.)	311
	California Canadian Bank	696
Royal Bank of Canada	Royal Bank and Trust Co	595
Toronto Dominion Bank	Toronto Dominion Bank & Trust Co.	<u>1/</u>
	Toronto Dominion Bank of California	133
Banco de Bogota	Banco de Bogota Trust Co.	168
Banco de Colombia	Eagle National Bank of Miami	110
Banamex	California Commerce Bank	209
Bancomer	Grossmont Bank	145
Banco Union	Union Chelsea National Bank	188
Hong Kong and Shanghai	Marine Midland Bank NA	21,238
State Bank of India	State Bank of India (California)	7
Bank Leumi Le-Israel	Bank Leumi Trust Company (NY)	2,681
Israel Discount Bank	Israel Discount Bank of NY	3,354
United Mizrahi Bank	UMB Bank and Trust Co.	430
Bank of Tokyo	Bank of Tokyo Tr. Co. (NY)	4,517
	California First Bank	4,159
Dai-Ichi Kangyo Bank	Dai-Ichi Kangyo Bank of California	131
Daiwa Bank	Daiwa Bank & Trust Co.	977

1/ These are trust companies and do not file bank call reports.

-2-

<u>Foreign Banks</u>	<u>U.S. Subsidiary</u>	<u>Assets (millions)</u>
Fuji Bank	Fuji Bank & Trust Co.	1,818
Industrial Bank of Japan	Industrial Bank of Japan Tr. Co. (NY)	1,432
Mitsubishi Bank	Mitsubishi Bank of California	564
Mitsui Bank	Mitsui Manufacturers Bank	1,697
Sanwa Bank	Golden State Sanwa Bank	1,194
Sumitomo Bank	Sumitomo Bank of California	2,341
Tokai Bank	Tokai Bank of California	411
Kyowa Bank	Kyowa Bank of California	65
Korea Exchange Bank	California Korea Bank	139
Hanil Bank	First State Bank of Southern Ca	62
Metropolitan Bank & Trust	International Bank of Ca	23
Philippine Comm & Ind	Philippine Comm Ind Bk Agency	18
Allied Banking Corp	Oceanic Bank	18
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		108,682

Foreign Owned Shell Bank Holding Companies *

<u>Bank holding company</u>	<u>U.S. Bank</u>	<u>Assets (\$millions 12-31-82)</u>
First Arabian Corporation	Bank of the Commonwealth	\$880
Grandville Financial Holdings	Independence Bank	178
First Pacific Investments Ltd.	Hibernia Bank	954
Trade Development Holdings SA	Republic National Bank of NY	8,927
Credit and Commerce American Holdings N.V.	Valley Fidelity Bank and Tr Co.	240
	First American Bank N.A.	831
	First American Bank of Va.	1,108
	Shenandoah Valley National Bank	84
	Valley National Bank	69
	Peoples NB of Leesburg	51
	Round Hill National Bank	24
	First NB of Lexington	13
	First American Bank of Md.	328
	Eastern Shore National Bank	47
	Bank of Commerce	395
	First American Bank of NY	80
The International Bank-Holding Company of Florida	International Bank of Miami NA	68
I.C.B. Holdings N.V.	Intercontinental Bank	509
Milford, N.V.	Totalbank (Miami)	130
G.W.B. Company	Great Western Bank and Trust	523
Marsh Investments, B.V.	Consolidated Bank NA	466
EM Kay Financing Corp.	Village Bank of New Jersey	61
First Coolidge Corp.	Coolidge Bank and Trust Co.	151
Empire Holdings Ltd.	Redwood Bank	194
		<u>16,311</u>

* These bank holding companies are not owned by foreign banks.