Fed okays British bank buys

A coverup for HongShang — but the fight is not over yet

In a surprise 5 to 0 vote March 16, the Federal Reserve's Board of Governors approved three controversial British banking takeovers of American institutions — exacerbating rather than quieting the storm of controversy that erupted around the proposed acquisitions last fall. The success of The Hongkong and Shanghai Banking Corporation's proposal to acquire Marine Midland Bank, Standard Chartered Bank's proposal to acquire Union Bank of California, and National Westminster's proposal to acquire the Union Bank of California, is by no means assured, despite the Fed's stamp of approval.

Four obstacles still stand in the way of the biggest British banking move into the U.S. markets since the pound sterling went off gold in 1914:

1) New York State Banking Superintendent Muriel Siebert will under no circumstances rubber-stamp the Fed's decision, after her strong stance against unbounded foreign acquisitions of American banks in a letter to House Banking and Currency Committee Chairman Henry Reuss. In press statements this week, Siebert insisted that the New York State authorities — who can prevent the HongShang from voting its shares in Marine Midland and effectively block the takeover — will take their time in considering the acquisitions. Last month, the *Wall Street Journal* quoted Siebert as projecting a decision well into the summer — a statement which a top Siebert aide says was cited by the *Journal* out of context.

2) The U.S. Labor Party, which filed a complaint against the HongShang acquisition bid with both the Fed and the New York State authority in October 1978, will file suit against the Board of Governors in the United States Court of Appeals, in a procedure which might mean an extended stay of the Fed's decision.

3) Many regional bankers, upset and angry over the prospect of an aggregate $30 billion bank acquisition by British predators, intend to take action through their own channels. One large New York State regional bank with over $1 billion in deposits has already alerted its general counsel to prepare possible action, and other banks are alerting their Washington lobbyists.

4) For a variety of reasons, Congress will reportedly hold hearings on the acquisitions. According to senior House Banking and Currency Committee aides, Rep. Fernand St. Germain (D.-R.I.) will hold hearings on the three British acquisitions. One aide says that the Fed approval itself has given the St. Germain Subcommittee on Financial Institutions the context in which to question the mergers.

Regulators split

New York's Miss Siebert and Fed Chairman Miller are bitterly divided on the central issues. In a March 6 response to Miss Siebert's earlier letter to Rep. Henry Reuss, Fed Chairman Miller insisted that the issues Siebert raised were old hat, dating back to detailed Congressional debate during the hearings on 1978's International Banking Act. Siebert insisted that Congress had left major problems unsolved; among these, she had written, was the possibility that the close relationship between acquiring foreign banks and foreign governments might lead to unwanted foreign official influence on American monetary policies in the event that the foreign banks absorbed a large share of American banking markets. The last point is a reference to the HongShang and Standard Chartered Bank, whose governing boards read like a Who's Who of the British Foreign Office and British Intelligence.

Siebert maintains that the International Banking Act passed last year deals with opening new outlets for foreign institutions but did not discuss acquisitions — a point which congressional sources affirm.

What makes Miller's assertion to the contrary so embarrassing for the Fed is that the Marine Midland Bank — under advice of HongShang lawyer Steuart L. Pittman — took the same position in a press release dated two days earlier. Granting that there is no evidence of collusion of lawyer Pittman, of the big Washington firm Shaw, Pittman, Trowbridge, and Potts, and Fed Chairman Miller, the coincidence raises eyebrows, particularly because both Pittman's and Miller's arguments against Siebert rest on the same factual error.

The British financial press has already opened a broadside against the feisty New York State Banking Supervisor, typified by the London *Economist's* reference to her "heavy breathing" over foreign bank acquisitions. Sources close to Miss Siebert say that this type of press treatment is more likely to make the regulator stick to her guns than to dissuade her.

British blackmail

The explosive potential of the regulatory fight is evident from material the *Executive Intelligence Review* has obtained from undercover investigators. The accompanying interview with a Citibank official in London reveals that British banks in London twisted the arms of American bankers to support the takeovers, by threatening to deny them clearing facilities in London financial markets in the event that the British bank takeovers were not approved. The interview also documents that such pressure was applied directly to Board of Governor's senior staff members John Ryan and Fred Dahl during a recent trip to London. Ryan and Dahl, the number one and number two men respectively in the Fed's Banking Supervisory and Regulation Division, were also told that harm would come to American banks in retaliation against Federal opposition to the proposed takeovers.

In its forthcoming suit against the Board of Governors, which must be filed within 30 days of the March 16 ruling, the U.S. Labor Party is expected to allege gross malfeasance of the regulatory body in handling the Standard Chartered and HongShang cases.

Apart from documentary evidence of illicit British blackmail tactics, there is a "Watergate-style" coverup of the issue involved.

The March 16 ruling dismisses the Labor Party's widely-publicized charge, that the two Hong Kong banks are central to the financing of international narcotics traffic, as undeserving of the "weight and dignity" of a Federal Reserve investigation. The ruling complains of "dubious deductions" and "unverified accusations" in a passage written in exceptionally strong language. The implication is that no investigation was ever necessary, or was ever conducted.

In fact, a staff investigation was in full swing during the five months between the Labor Party's presentation of the charges and the Fed's ruling. According to authoritative sources, the late Federal Reserve General Counsel and Assistant to the Chairman, Thomas O'Connell, had directed the Fed staff to conduct a thorough investigation, after a meeting with Labor Party representatives in late September 1978. But the ruling makes no reference to such an investigation. O'Connell died, allegedly of complications arising from a longstanding diabetes condition, in February 1979.

A number of conservative Congressmen reportedly will begin to raise questions about the Board of Governors' possible coverup of Fed Staff findings.

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EXCLUSIVE INTERVIEW

Blackmail used to push through takeovers

The following portions of an interview with a top Citibank official in London demonstrates that British banks employed blackmail tactics in an effort to force American banks to knuckle under to the takeovers, and that such tactics were similarly employed against Federal regulators. The interviewed banker, reluctant at the outset to discuss the subject, ends with an indictment of the British side that could have profound effects on bank regulations.

Q: .... *Ms. Siebert, the New York State Banking Department head, has already said that because there is no reciprocity these things, (takeovers) must be denied. And the British were quite upset about that, in fact the Bank of England asked her to come and see them when she's in town in two weeks .... They were upset precisely because they said reciprocity ought not to hold because our two banking systems are so different. And what we heard was*