

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.

—David Goldman
Economics Editor

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

that a large number of banks in New York in particular would actually like to see the possibility of a wave of take-overs... forestalled. Irving Trust has reportedly requested the White House... But we were told by a number of banks that... "we're afraid if we back up Siebert the British authorities will take some kind of retaliatory measures against us ... What levers do the Bank of England, or the Exchequer... or even the British private clearing banks ... what kind of things could they conceivably do to make life difficult for American banks in London?..."

A: They generally don't play that way and I don't think they would play that kind of game. Assuming for a moment that they decided to do that, to retaliate, they could delay approval of putting in new branches but actually the American banks don't show too much interest in establishing new branches over here. I don't see it (the authorities) as a danger. But, I really don't think it's worth too much time getting into this. No single American bank would want to have its name in the newspapers as opposing the British banks coming into the United States... at least no bank with a substantial amount of foreign business would want to

Q: *The question is, why not? What could happen to them if they did?*

A: Let me first say I think they'd be concerned about the attitudes of the British banks. We depend on the British banks to get funds, to fund our operations to some degree through the interbank market... We refer deals to each other on a syndicated loan basis. Our British customers, corporate customers, there's a lot of cross-board representation and so on — it would just be regarded as a chauvanistic American move on our part which would inevitably attach static to whichever specific bank was seen opposing the coming of the British. Is that clear enough?

Q: *... You're not talking about Eurodollars... I assume you're talking about sterling or both?*

A: Mainly sterling, although to some degree there are dollars back and forth. But they depend there on us as well, except that the banks are customers of ours here and we are customers of theirs and the interaction is important to us in doing our business in a great variety of ways. For example, we have to have a British bank clear our checks for us ... in sterling.

Q: *Could you tell me whether you have discussed this with your British banking customers ...?*

A: They have not been after us one way or the other to support it and, uh, I think they have assumed that we would not oppose it ... given our large overseas network I think our banks generally ... would not oppose it, are basically in favor of a more open, unregulated approach to these banks, and allow each in the other's markets. Of course there's a slight problem here in that we're at a double competitive disadvantage since we can't buy British banks, and we, as American banks, can't buy American banks.

Q: *That doesn't bother you at all?*

A: I think it does bother us but ... that's a corporate policy.... It does concern us but whether it concerns us enough to get up on the soapbox is another matter Our attitude is generally to promote as much open competition as possible

Q: *You didn't express an opinion one way or the other to the Federal Reserve Board while they were considering these purchases then?*

A: No, well some of the Federal Reserve people have been over here, and Ryan and Dahl were here, and so on. No, uh, to my knowledge the bank has not taken a stand on this one way or the other, but once again I think Al Costanzo, our Vice-Chairman in New York