



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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 9, 1996

Mr. John H. Huffstutler
Senior Vice President and
Chief Regulatory Counsel
Bank of America National Trust
and Savings Association
Bank of America Center
Box 37000
San Francisco, California 94137

Dear Mr. Huffstutler:

The Board of Governors of the Federal Reserve System (the "Board") has approved the application by Bank of America National Trust and Savings Association ("Bank"), San Francisco, California, under section 211.3 of Regulation K (12 C.F.R. 211.3), to establish branches of BA Merchant Services, Inc., San Francisco, California ("Merchant Services"), in New Delhi, Bombay, Calcutta, and Madras, India; Seoul, South Korea; Manila, the Philippines; Taipei, Taiwan; Bangkok, Thailand; and Shanghai, Peoples Republic of China.

Merchant Services, an operating subsidiary of Bank, would engage in the existing merchant processing businesses of Bank and Bank of America NW, National Association ("BoFA-NW"), Seattle, Washington, an affiliate of Bank.^{1/} Both banks would transfer their existing merchant processing businesses to

^{1/} The Office of the Comptroller of the Currency ("OCC") issued letters of no objection to the establishment of Merchant Services by Bank and BoFA-NW. See letters to John H. Huffstutler, Chief Regulatory Counsel, Bank of America, N.T. & S.A., from Ralph E. Sharpe, Deputy Comptroller, OCC (November 8, 1996) and from Julie L. Williams, Chief Counsel, OCC (November 14, 1996). Bank and BoFA-NW intend to merge effective January 1, 1997. On an interim basis, Bank would own 80 percent of Merchant Services and BoFA-NW would own 20 percent of Merchant Services. Additionally, Bank intends to conduct an initial public offering of Merchant Services's shares, after which Bank would hold 80 percent of the voting interest and 40 percent of the equity interest in Merchant Services, and the remainder of the shares of Merchant Services would be held by public shareholders.

Merchant Services. Bank would also transfer the merchant processing operations of its indirect subsidiary, BA Card Services, Inc., Manila, the Philippines, to Merchant Services. These merchant processing operations would be conducted through a foreign branch of Merchant Services to be located in Manila. These merchant processing businesses consist of various payment processing and related information products and services to merchants who accept credit, charge, and debit cards as payment for goods and services.

Under section 25 of the Federal Reserve Act ("FRA") and section 211.3 of the Board's Regulation K, national banks may establish branches abroad with the Board's approval.^{2/} Merchant Services would conduct only activities that are permissible for Bank to conduct directly and may be deemed to be a separately incorporated department of its national bank parent for purposes of section 25 of the FRA and section 211.3(a) of Regulation K.^{3/} Subject to standards of banking or financial prudence, "it is the Board's policy to allow activities abroad to be organized and operated as best meets corporate policies."^{4/} Accordingly, based on all facts of record, the Board grants its specific consent for Bank to establish foreign branches through Merchant Services pursuant to section 211.3(a)(1) of Regulation K.

The Board's determination is subject to the condition that Bank and Merchant Services shall engage only in activities through the proposed branches that are permissible to Bank directly. In reaching its decision, the Board has relied on all representations and commitments made by Bank in connection with Bank's application. These commitments are conditions imposed in writing by the Board in connection with its findings and decisions, and may be enforced in proceedings under applicable law.

Please advise the Federal Reserve Bank of San Francisco in writing once the proposed branches have been established. Under section 211.3(a) of Regulation K, the authority to

^{2/} 12 U.S.C. § 601.

^{3/} The Board previously has determined that member banks may establish operating subsidiaries designed to serve, in effect, as separately incorporated departments of the bank, provided that the activities are permissible for the bank to conduct directly and the organizational arrangement would not be inconsistent with other Federal law. 12 C.F.R. 250.141.

^{4/} 12 C.F.R. 211.5(a).

establish a branch through prior notice or specific consent shall expire one year from the earliest date on which the authority could have been exercised, unless the Board extends the period.

Very truly yours,

A handwritten signature in black ink, reading "Jennifer J. Johnson". The signature is written in a cursive style with a long horizontal flourish extending to the right.

Jennifer J. Johnson
Deputy Secretary of the Board