To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement With respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin

Gov. Szymczak

Gov. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King

Minutes of the Board of Governors of the Federal Reserve System on Friday, March 25, 1960. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman

Mr. Balderston, Vice Chairman

Mr. Szymczak

Mr. Mills

Mr. Robertson

Mr. Shepardson

Mr. Sherman, Secretary

Mr. Thomas, Adviser to the Board

Mr. Fauver, Assistant to the Board

Mr. Noyes, Director, Division of Research and Statistics

Mr. Farrell, Director, Division of Bank Operations

Mr. Solomon, Director, Division of Examinations

Mr. Hexter, Assistant General Counsel

Mr. Nelson, Assistant Director, Division of Examinations

Mr. Goodman, Assistant Director, Division of Examinations

Mr. Landry, Assistant to the Secretary

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, St. Louis, Minneapolis, Kansas City, and Dallas on March 24, 1960, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Application to organize a national bank at Albany, Georgia. There had been circulated a file relating to an application to organize a national bank at Albany, Georgia, including a memorandum from the Division of Examinations dated March 9, 1960, and a draft letter to the

Comptroller of the Currency recommending favorably with respect to this application. The Atlanta Reserve Bank had concluded that there should be an unfavorable recommendation.

During the discussion of the application, Mr. Nelson reviewed the banking situation in Albany, a city of about 50,000 population presently served by four nonmember insured banks. It was brought out during this discussion that the Atlanta Reserve Bank felt there was no real need for an additional bank in the community, although other factors regarding the application were favorable.

Since it was the consensus that a favorable recommendation be made on this application to the Comptroller of the Currency, it was decided, in accordance with the usual procedure followed in instances where the Board's recommendation differed from that of the Reserve Bank, to request additional information from the Atlanta Reserve Bank on this application.

Mr. Molony, Assistant to the Board, joined the meeting at this Point.

Application to organize a national bank at Jacksonville, Florida. There had been circulated a file relating to an application to organize a national bank at Jacksonville, Florida, on which the Atlanta Reserve Bank had recommended unfavorably. A draft letter to the Comptroller of the Currency recommending favorably on this application was contained in the file, along with a memorandum dated March 7, 1960, from the Division of Examinations.

Mr. Nelson reviewed the banking situation in Jacksonville, indicating that the proposed bank would be located approximately four miles southeast of the main business section and would serve about 20,000 persons within the area in which it would be located, said to be one of the fastest growing residential sections of its county. In the view of the Division of Examinations, this case should be considered on about the same basis as a branch application in a State which, unlike Florida, permitted branch banking; and he noted that except for lack of a demonstrated current need for the bank, factors to be considered in making recommendations on such applications were favorable.

Pointing out that the nearest competing bank to the proposed institution would be a recently State chartered affiliate of the Atlantic National Bank of Jacksonville to be situated in a shopping center 1.1 miles northwest of the proposed bank, Governor Robertson said that he could not see in the record sufficient justification to go against the recommendation of the Atlanta Reserve Bank. He regarded the application as premature and felt it should be denied.

Governor Mills said that, with branch banking prohibited in Florida, this application for a new bank charter resembled what in other States would be a branch. The sponsors were well able to afford to take any risks if earnings of the bank did not develop satisfactorily and the Ownership of the other bank that had been chartered and was to be opened in a nearby shopping center also could assume whatever risks were in-Volved for that bank. Under these circumstances, he thought it would be

inadvisable for the Board to interpose a judgment against that of the sponsors of the bank. Further, from the study of banking developments in Florida recently prepared by the Division of Examinations, he found no basis for concern that group and chain banking in Florida was developing in a way to prevent other banks from being established and thriving. For these reasons, he believed a favorable recommendation should be made on this application.

Following further discussion, it was agreed that the Atlanta Reserve Bank should be informed that the Board was considering a favorable recommendation on this application and that it be requested to submit any further comments that it might wish to make.

Examination report of Virgin Islands branches of Chase Manhattan

Bank (Item No. 1). There had been circulated reports of examination

of the Virgin Islands branches of The Chase Manhattan Bank as of the

close of business December 31, 1959, along with draft letters to the

Federal Reserve Bank of New York, The Chase Manhattan Bank, and Mr. G.

Russell Clark, New York State Superintendent of Banks, transmitting

copies of the reports, the latter two letters to be transmitted through

the New York Reserve Bank.

Mr. Goodman recalled that establishment of the four Virgin Islands branches was approved by the Board on September 14, 1959, in connection With the acquisition of assets and assumption of liabilities by Chase Manhattan of the West Indies Bank and Trust Company, Charlotte Amalie,

St. Thomas, which opened for business as branches September 16, 1959. He noted that the examiner stated that lax collection practices and habitual delinquencies of customers had caused an accumulation of past-due mortgages, personal loans, and instalment paper that would be alarming except for local custom. Lists of past-due items had been left with the management with the understanding that the Division of Examinations would be advised as to the disposition of each item. However, the new manager was believed by the examiner to be capable of rectifying the delinquencies and continuing the branches in profitable operation. The proposed letter to Chase Manhattan requested that the Board be advised as to the actions taken or contemplated with respect to the classified assets of the Virgin Islands branches.

Mr. Solomon stated that, contrary to some expectations at the time it was established in 1953, the West Indies Bank and Trust Company had developed a good volume of deposits and loans, and that its growth had not occurred at the expense of an older institution, which appeared to have reached a rather static position when the West Indies Bank was chartered.

Unanimous approval was then given to a letter to The Chase Manhattan Bank transmitting copies of the report of examination, with the understanding that a similar letter of transmittal would be sent to the New York State Superintendent of Banks, both letters to be transmitted through

the New York Federal Reserve Bank. The letter to Chase Manhattan is attached Item No. 1.

Survey of maximum interest rates on time and savings deposits.

Pursuant to the understanding reached at the meeting on March 21, 1960,

there had been placed on the agenda for the joint meeting of the Board

and the Presidents Conference on March 22, 1960, the proposal made in

a memorandum from Mr. Noyes dated March 18, 1960, recommending a quick

survey of the highest interest rates offered on time or savings deposits

by member banks.

Mr. Noyes commented on two suggestions that had been made during the discussion at the meeting with the Presidents: (1) it might be desirable to ask for the highest rate paid on savings deposits as well as asking the question originally proposed, namely, the highest rate paid on any form of time or savings deposit; (2) the individual Reserve Banks should have latitude as to the form of questions they might ask of member banks. Mr. Noyes stated that the Division of Research and Statistics was not urging that a survey of this type be made, although it believed such information would be of interest.

Chairman Martin commented that he had received the impression from remarks of the Presidents as well as others concerned with the question that a Board survey would stir up unnecessary questions. He agreed that it would be helpful to have this information, but he questioned whether it would be of sufficient importance to warrant a special survey at this time.

A discussion ensued during which the suggestion was made that in lieu of a survey of the type proposed a suitable question or questions could be included on the call report of condition, possibly on the report to be made this coming June. At the conclusion of the discussion, it was agreed that a survey such as that suggested in Mr. Noyes* memorandum of March 18 would not be made but that the staff would look further into the possibility of securing information on interest rates paid on time and savings deposits as a part of forthcoming member bank reports of condition.

Messrs. Brill, Associate Adviser, Division of Research and Statistics, Donald Farrell, Assistant Counsel, and Miss Hart, Assistant Counsel, Legal Division, entered the room during the foregoing discussion, and Messrs. John Farrell and Nelson withdrew at its conclusion.

Amendments to Regulations T and U with respect to arbitrage transactions (Items 2 and 3). There had been distributed under date of March 15, 1960, a memorandum from the Legal Division attaching a proposed amendment to section 220.4(d) of Regulation T and section 221.2(j) of Regulation U along with a conforming amendment to section 220.3(d)(3) of Regulation T that would specify a 90-day period as the maximum under which arbitrage transactions would be exempted from both Regulations. This memorandum was submitted in accordance with the understanding reached at the Board meeting on February 17, 1960, when the Board indicated that a definition of "arbitrage" should be included in Regulation U and that the "reasonable time" standard should be replaced by a more definite

standard. The memorandum also attached a summary of the views of 10 member firms of the New York Stock Exchange of whom seven opposed any change in the Regulations in this regard and the remaining three favored a change but in the direction of a longer period than 90 days.

Mr. Hexter referred to a letter dated March 10, 1960, from the New York Stock Exchange taking the position that a "reasonable time" in Regulation T could be interpreted to mean the period to the conversion date of a convertible security regardless of how long such period might be and stating that because of the flexibility thus provided by the Regulation, the Exchange felt the present language of section 220.4(d) should be retained. Mr. Hexter went on to say that a relatively small corner of the field of arbitrage would be affected by the proposed amendment, which had come to the Board in connection with arbitrage involving Studebaker-Packard Corporation preferred stock convertible into common stock in January 1961. It was his impression that the decision made by the Board on February 17 interposing no objection to loans and com-Mitments made by Morgan Guaranty Trust Company in this connection was justified not only on the basis of the rarity of the case but also because arbitrage in this instance imparted breadth and depth to the Market. However, he believed that the loans made by Morgan Guaranty to certain members of the New York Stock Exchange for periods of about a Year would probably not stimulate activity in the securities involved any more than would the extension of short-term credit as envisaged in the proposed 90-day limitation.

Mr. Solomon agreed, adding that where arbitrage transactions entailed almost simultaneous purchase and sale of securities the securities concerned were practically identical. However, this became less and less true the longer the period to the conversion date, eventually reaching a point where, in effect, what was involved was spot purchase of one security and short sale of another, to which the current 90 per cent margin requirement under Regulations T and U applied.

During the discussion that followed, Chairman Martin remarked that the Studebaker-Packard case had involved a difficult piece of financing which had been carried off successfully. Regardless of whether use of arbitrage aided in this operation, however, he felt that a repetition of the questions that arose in the Morgan Guaranty situation regarding the applicability of the Regulation should be avoided and that the Board should make clear in the Regulation what it considered to be a "reasonable time".

Governor Shepardson suggested having the phrase "reasonable time" in both Regulations with the insertion of a parenthetical note that this normally meant 90 days save in exceptional cases that would require prior approval of the Board. He recognized that this would invite requests and inquiries of the Board, but he believed these would be minimal since cases like the recent Studebaker-Packard transactions would be infrequent.

Governor Mills observed that if this suggestion were followed, in a sense it would be giving public notice of prior Board approval,

thereby implying its blessing for the particular transactions involved and "blowing up" their importance in the market place.

After a discussion of this suggestion, Chairman Martin stated the view that a definite time limit would seem preferable, even though there might be extenuating circumstances in some cases. Governor Shepardson said that he had no objection to the 90-day period suggested but was only thinking of a means that might enable the Board to take care of extraordinary situations. Various comments followed relative to interpreting a "reasonable time" in this context as 60, 90, or 120 days, including a statement by Governor Mills that he was inclined to favor 90 days with publication in the Federal Register for comment.

Governor Mills then inquired whether the proposed amendments to Regulations T and U would change the situation of a bank being able to lend a broker 100 per cent of the value of an arbitrage transaction for his own or a customer's account, whereas on a direct loan to a customer the bank would be able to loan only 10 per cent under the present Regulation.

Mr. Donald Farrell replied that this situation would not be changed by the proposed amendment and Mr. Solomon elaborated on this point. Mr. Solomon also said that, as a practical matter, arbitrage transactions almost invariably would be carried on through brokers because of their specialized technical nature.

Unanimous approval was then given to the publication in the Federal Register of the proposed amendments to Regulations T and U specifying a 90-day exemption period for arbitrage transactions, with the understanding that comments from interested persons should be submitted within a month from the date of transmission of the proposed amendments to the Federal Register. Copies of the proposed amendments in the form submitted to the Federal Register are attached as Items 2 and 3.

At this point Messrs. Hexter, Brill, and Donald Farrell and Miss Hart withdrew.

Branch reports of condition. Governor Robertson reported a discussion with Mr. Deming, President of the Federal Reserve Bank of Minneapolis, subsequent to the discussion at the joint meeting with the Presidents² Conference on March 22, 1960, of the question of collecting abbreviated reports of condition of branches of commercial banks in connection with the June 1960 call. He said that Mr. Deming as Chairman of the Committee on Bank Supervision of the Conference, had inquired of Chairman Martin, who had referred the question to him (Governor Robertson), whether a small ad hoc subcommittee of examination Personnel selected mainly from the districts having large branch affiliations should be appointed to study the collection of such figures. Governor Robertson said that he had replied, following consultation with the staff, that as a preliminary step it would be preferable to determine what use could be made of the information on branches currently held by the Division of Bank Operations that had been secured

from banks on a voluntary basis. He also suggested that Mr. Solomon initiate discussions with staff in the Office of the Comptroller of the Currency and at the Federal Deposit Insurance Corporation with the objective of working out arrangements by which this information could be obtained in such manner and such form that it could be made public and thus be usable in connection with applications for mergers, branches, and holding company acquisitions. If his suggestion, with which President Deming agreed, was acceptable to the Board, there would be no need for a committee to be set up at the present time.

There was concurrence with the procedure proposed by Governor Robertson.

All members of the staff then withdrew and the Board went into $e_{xecutive}$ session.

European travel. Governor Shepardson later informed the Secretary that during the executive session the Board authorized (1) the attendance by Governor Shepardson at the 1960 annual general meeting of the Bank for International Settlements to be held in Basle, Switzerland, in June of this year and his visiting such central banks in Europe as time would permit while in Europe for that meeting, probably those in Italy, West Germany, Denmark, The Netherlands, Belgium, France, and England; (2) Ralph C. Wood, Chief of the European Section, Division of International Finance, to accompany Governor Shepardson to the meeting of the Bank for International Settlements and on his visits to

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European central banks; and (3) reimbursement of travel costs for Governor Shepardson and Mr. Wood in accordance with the Board*s travel regulations as supplemented by the standardized Government travel regulations.

The meeting then adjourned.

Secretary's Notes: Governor Shepardson approved on behalf of the Board on March 24, 1960, a letter to the Federal Reserve Bank of New York (attached Item No. 4) approving the appointment of Paul E. FitzMorris as assistant examiner.

Governor Shepardson today approved on behalf of the Board the recommendation contained in a memorandum from Mr. Daniels, Assistant Director, Division of Bank Operations, dated March 24, 1960, that John Baird, in that Division, be designated to serve as alternate to Harold F. Stone in witnessing the mutilation of signature plates of officers of Federal Reserve Banks used in signing checks drawn by the Banks as Fiscal Agents of the United States.

Secretary



BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 1 3/25/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE SDARD

March 25, 1960

Mr. John J. McCloy, Chairman, Board of Directors, The Chase Manhattan Bank, 18 Pine Street, New York 15, New York.

Dear Mr. McCloy:

There are enclosed two copies of the report of examination of the Virgin Islands branches of The Chase Manhattan Bank, New York, New York, situated in Charlotte Amalie, St. Thomas; Christiansted, St. Croix; Frederiksted, St. Croix; and Cruz Bay Quarter, St. John, made as of the close of business December 31, 1959, by examiners for the Board of Governors of the Federal Reserve System. The second copy of the report is for the information and files of the officer in charge of the branches.

After the report has been presented to your directors for their consideration, please advise the Board of Governors regarding the action taken or contemplated with respect to the assets classified on page 3 of the report. Any comments you may care to make with regard to the operations of the branches as disclosed by the report will be appreciated.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon, Assistant Secretary.

Enclosure

FEDERAL RESERVE SYSTEM

[12 CFR Part 220]

Item No. 2 3/25/60

[Reg. T]

CREDIT BY BROKERS, DEALERS, AND MEMBERS OF NATIONAL SECURITIES EXCHANGES

Notice of Proposed Rule Making

The Board of Governors of the Federal Reserve System is considering an amendment to paragraph (d) of § 220.4 of Part 220 (Regulation T), concerning the extension of credit for the purpose of effecting arbitrage transactions, and a conforming amendment to subparagraph (3) of paragraph (d) of § 220.3.

There appears to be some doubt as to the situations in which credit may be extended under paragraph (d) of § 220.4 outside the margin restrictions of § 220.3 General accounts, as well as with respect to the scope of the exception prescribed by subparagraph (3) of paragraph (d) of § 220.3. In order to clarify the Board's position in this matter and provide more explicit standards in the application of these provisions, it is proposed to substitute a 90-day period for the present "reasonable time" standard.

The proposed amendment would change paragraph (d) of \$ 220.4 to read as follows:

§ 220.4 Special Accounts.

* * * * *

(d) Special arbitrage account. In a special arbitrage account, a member of a national securities exchange may

effect and finance for any customer bona fide arbitrage transactions in securities. For the purposes of this paragraph, the term "arbitrage" means (1) a purchase or sale of a security in one market together with an offsetting sale or purchase of the same security in a different market at as nearly the same time as practicable, for the purpose of taking advantage of a difference in prices in the two markets, or (2) a purchase of a security which is, without restriction other than the payment of money, exchangeable or convertible within 90 calendar days following the date of its purchase into a second security together with an offsetting sale at or about the same time of such second security, for the purpose of taking advantage of a disparity in the prices of the two securities.

The proposed amendment would change subparagraph (3) of paragraph (d) of 3 220.3 to read as follows:

§ 220.3 General Accounts.

* * * * *

(d) Adjusted debit balance.

* * * * *

(3) the current market value of any securities (other than unissued securities) sold short in the account plus, for each such security (other than an exempted security), such amount as the Board shall prescribe from time to time in § 220.8 as the margin required for such short sales,

except that such amount so prescribed in § 220.8 need not be included when there are held in the account securities exchangeable or convertible within 90 calendar days, without restriction other than the payment of money, into such securities sold short;

This notice is published pursuant to section 4 of the Administrative Procedure Act and section 2 of the rules of procedure of the Board of Governors of the Federal Reserve System (12 CFR 262.2). The proposed changes are authorized under the authority cited at 12 CFR 220.

To aid in the consideration of the foregoing matters the Board will be glad to receive from interested persons any relevant data, views, or arguments. Although such material may be sent directly to the Board, it is preferable that it be sent to the Federal Reserve Bank of the district, which will forward it to the Board for consideration. All such material should be submitted in writing to be received not later than April 29, 1960.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(SEAL)

(Signed) Merritt Sherman

Merritt Sherman,

Secretary.

FEDERAL RESERVE SYSTEM

[12 CFR Part 221]

Item No. 3 3/25/60

[Reg. U]

LOANS BY BANKS FOR THE PURPOSE OF PURCHASING OR CARRYING REGISTERED STOCKS

Notice of Proposed Rule Making

The Board of Governors of the Federal Reserve System is considering an amendment to paragraph (j) of § 221.2 of Part 221 (Regulation U) concerning the extension of credit by banks for the purpose of effecting arbitrage transactions.

The purpose of the proposed amendment is to define the term "arbitrage" for this purpose, and thereby to provide a more definite statement of the situations in which credit may be extended, in connection with arbitrage transactions, outside the margin restrictions of § 221.1 General Tule.

The proposed amendment would change paragraph (j) of § 221.2 to read as follows:

§ 221.2 Exceptions to general rule.

* * * * *

(j) Any loan to a member of a national securities
exchange for the purpose of financing his or his customers'
bona fide arbitrage transactions in securities. For the
purposes of this paragraph, the term "arbitrage" means (1) a
purchase or sale of a security in one market together with
an offsetting sale or purchase of the same security in a
different market at as nearly the same time as practicable,
for the purpose of taking advantage of a difference in prices
in the two markets, or (2) a purchase of a security

which is, without restriction other than the payment of money, exchangeable or convertible within 90 calendar days following the date of its purchase into a second security together with an offsetting sale at or about the same time of such second security, for the purpose of taking advantage of a disparity in the prices of the two securities.

This notice is published pursuant to section 4 of the Administrative Procedure Act and section 2 of the rules of procedure of the Board of Governors of the Federal Reserve System (12 CFR 262.2). The proposed changes are authorized under the authority cited at 12 CFR 221.

To aid in the consideration of the foregoing matters the Board will be glad to receive from interested persons any relevant data, views, or arguments. Although such material may be sent directly to the Board, it is preferable that it be sent to the Federal Reserve Bank of the district, which will forward it to the Board for consideration. All such material should be submitted in writing to be received not later than April 29, 1960.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(SEAL)

(Signed) Merritt Sherman

Merritt Sherman,

Secretary.



BOARD OF GOVERNORS

FEDERAL RESERVE SYSTEM

1tem No. 4 3/25/60

WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 24, 1960.

Mr. Howard D. Crosse, Vice President, Federal Reserve Bank of New York, New York 45, New York.

Dear Mr. Crosse:

In accordance with the request contained in your letter of March 17, 1960, the Board approves the appointment of Paul E. FitzMorris as an assistant examiner for the Federal Reserve Bank of New York. Please advise as to the date on which the appointment is made effective.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon, Assistant Secretary.